
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY
FOR THE FISCAL YEAR ENDED
JUNE 30, 2001**

March 2003

A-77-03-00011

**MANAGEMENT
ADVISORY REPORT**



Mission

We improve SSA programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the Congress, and the public.

Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.**
- Promote economy, effectiveness, and efficiency within the agency.**
- Prevent and detect fraud, waste, and abuse in agency programs and operations.**
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.**

To ensure objectivity, the IG Act empowers the IG with:

- Independence to determine what reviews to perform.**
- Access to all information necessary for the reviews.**
- Authority to publish findings and recommendations based on the reviews.**

Vision

By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.



SOCIAL SECURITY

MEMORANDUM

Date: March 20, 2003

Refer To:

To: Candace Skurnik
Acting Director
Management Analysis and Audit Program Support Staff

From: Assistant Inspector General
for Audit

Subject: Management Advisory Report: Single Audit of the Commonwealth of Puerto Rico, Department of the Family, for the Fiscal Year Ended June 30, 2001 (A-77-03-00011)

This report presents the Social Security Administration's (SSA) portion of the single audit of the Commonwealth of Puerto Rico, Department of the Family (DOF), for the Fiscal Year ended June 30, 2001. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

Ernst & Young LLP performed the audit. Results of the desk review conducted by the Department of Health and Human Services (HHS) have not been received. We will notify you when the results are received if HHS determines the audit did not meet Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by Ernst & Young LLP and the reviews performed by HHS.

For single audit purposes, the Office of Management and Budget assigns Federal programs a Catalog of Federal Domestic Assistance (CFDA) number. SSA's Disability Insurance (DI) and Supplemental Security Income (SSI) programs are identified by CFDA number 96. SSA is responsible for resolving single audit findings reported under this CFDA number.

The Puerto Rico Disability Determination Services (DDS) performs disability determinations under SSA's DI and SSI programs in accordance with Federal regulations. The DDS is reimbursed for 100 percent of allowable costs. DOF is the Puerto Rico DDS' parent agency.

The single audit reported that:

1. The Time Report of Personnel Services (SSA-4514) was not submitted timely. The corrective action plan indicated that necessary adjustments were being made to comply with the due dates for Federal reports (Attachment A, pages 1 and 2).¹
2. Estimated personnel costs were used on the State Agency Report of Obligations (SSA-4513), resulting in a questioned cost of \$100,144. The corrective action plan indicated that the accounting records were adjusted after payroll registers with actual expense information were received from the Department of the Treasury (Treasury) and the adjustments were included in a subsequent SSA-4513 (Attachment A, pages 1 and 2).
3. Evidence could not be located to support the time elapsed between the receipt and disbursement of Federal funds for the DDS program. The corrective action plan indicated that Treasury initiated a project to provide agencies with payment information on the transfer of Federal funds (Attachment A, pages 3 and 4).²
4. DDS expenditures of \$548 were not supported by documentation. The corrective action plan indicated a record retention system ensuring all records and documents are retained for the required period of time has been implemented (Attachment A, pages 5 and 6).
5. DOF did not maintain accurate records of acquisitions, physical location, and dispositions of property acquired with Federal funds. The corrective action plan indicated that personnel have been appointed and will be responsible for all property and equipment for the DDS program (Attachment A, pages 7 and 8).³
6. Complete personnel information was not maintained in the employees files. The corrective action plan indicated that documents will be retained in the future (Attachment A, pages 9 and 10).⁴

¹ The Office of the Inspector General (OIG) *Management Advisory Report: Single Audit of the Commonwealth of Puerto Rico, Department of the Family, for the Fiscal Year Ended June 30, 2000* (A-77-03-00010) issued March 12, 2003, recommended corrective action that would resolve this issue. Therefore, we are not making a recommendation to the Agency on this single audit finding.

² The OIG Audit Report *Administrative Costs Claimed by the Commonwealth of Puerto Rico Disability Determination Program during the period October 1, 1997 through September 30, 2000* (A-06-02-22072) issued February 23, 2003, recommended corrective action that would resolve this issue. Therefore, we are not making a recommendation to the Agency on this single audit finding.

³ See footnote 1.

⁴ Ibid.

We recommend SSA:

1. Ensure the \$100,144 in estimated personnel costs was properly adjusted on a subsequent SSA-4513, and if not, recover the unallowable costs.
2. Determine whether the \$548 in undocumented expenditures was allowable and recover any unallowable costs.

The single audit also disclosed the following findings that may impact DDS operations although they were not specifically identified to SSA. Some of these findings were reported for several DOF programs indicating pervasive problems within DOF. If the finding was reported in more than one DOF program, we identify the number of times the finding was reported in parenthesis at the end of each finding. I am bringing these matters to your attention as they represent potentially serious service delivery and financial control problems for the Agency (see Attachment B).

- Financial statements were not prepared in conformity with Generally Accepted Accounting Principles because of a lack of policies, procedures, and financial reporting practices. Therefore, management did not have accurate and complete financial information on a timely basis to carry out other duties (14).
- DOF did not have an effective filing system.
- Federal reports were not submitted accurately and timely (6).
- Property and equipment management procedures were not adequate (8).
- Supporting documentation and accounting records were not retained for expenditures charged to Federal funds (21).
- Federal funds were disbursed prior to receiving a signed contract.
- Financial Status Reports did not agree with the General Ledger (6).
- Evidence to support the drawdown of Federal funds could not be located (3).
- The DOF does not have an approved Cost Allocation Plan.

Page 4 – Candace Skurnik

Please send copies of the final Audit Clearance Document to Mark Bailey in Kansas City and Paul Wood in Baltimore. If you have questions contact Mark Bailey at (816) 936-5591.


Steven L. Schaeffer

Attachments

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Num. 01-73

State Agency	Catalog Number	Program Name
U.S. Social Security Administration	CFDA #96.001	Disability Determination Services

Topic Sentence

The Department did not submit the Financial Status Report and Cash Transactions Report when due.

Category

Internal Control/Compliance

Compliance Requirement

Reporting

Criteria

The Department must submit the SSA-4513 and SSA-4514 no later than 30 days after the end of each specified reporting period for quarterly and semi-annual reports, and 90 calendar days for annual and final reports.

Condition Found

In order to test compliance with the reporting deadline of the Promoting Safe and Stable Families, we selected the four quarterly reports and noted the following:

1. The Time Report of Personnel Services (SSA-4514) for the period ended 12-31-00 was submitted 5 days later after the ending period.
2. The Time Report of Personnel Services (SSA-4514) for the period ended 3-31-01 was submitted 7 days late.
3. In each quarter report (SSA-4513) DDS used estimates of personnel costs.

Known Questioned, Costs

As of 9-30-00 \$ (482)- Personnel Expenses not requested

As of 6-30-01 100,626 - Personnel Expenses requested

Net total **\$100,144**

Underlying Cause

The accountant in-charge prepared its respectively expenses reports and were submitted later for the months mentioned above.

Effect

Inaccurate reporting prevents the federal awarding agency from monitoring the program's financial activities, assessing the achievements of the program and evaluating the grant award for the following year.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-73 (continued)

Recommendations

The Department should develop a tracking system which reminds staff due dates. Adequate evidence of the submittal of all federal reports should be kept by the Department.

Management's Response

The Department acknowledged our findings and agreed with our recommendation. In relation to Item 1, the Department is making the necessary adjustments to comply with the due dates. The Human Resources Division of the Department is providing part of the information that is required for the completion of the SSA-4514 and this process has proved to be very effective. Also the program is in the process of automating the attendance of employees, which will allow the program to obtain the information sooner and report on a timely manner.

Regarding the indirect cost rate, an adjustment was made subsequently in the quarterly report of December 2000, to correct the reported indirect costs.

In relation to Item 3, payroll is processed by the Puerto Rico Treasury Department through the RHUM system. Payroll registers with actual expense information are received late from Department of Treasury, which obligates the program to record payroll expenses based on the last payroll. Once the payroll information is received, the accounting records are adjusted and this is reflected in the next SSA-4513.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-74

State Agency	Catalog Number	Program Name
U.S. Social Security Administration	CFDA #96.001	Disability Determination Services

Topic Sentence

The Department could not locate evidence to support the time elapsed between the transfer of federal funds and the disbursements of the funds.

Category

Compliance/Internal Control

Compliance Requirement

Cash Management

Criteria

31 CFR 205.6 established that the Zero balance accounting is a method of transferring Federal funds to the State based on the actual amount of funds that are paid out by the State. The funding technique must be auditable for internal control purposes. Auditable means the sources of data and information for a calculation are readily available, fully documented, and verifiable, such that the calculation can be replicated and proven to comply with all pertinent standards.

Condition Found

In testing compliance with cash management we examined the vouchers for payments and evaluated the procedures implemented to minimize the time elapsed between the transfer of Federal Funds and the payment of funds for program purposes. Upon our inspection, we were unable to perform the Cash Management test because the Governmental Development Bank (GDB) did not provide ADFAN a list detailing cancelled checks for which federal funds were expended. Checks cleared by GDB are not listed in detail but included in a lump sum amount. This precludes ADFAN from matching cleared checks with the corresponding payment and tying this to the request for funds. This problem is between GDB and the PRIFAS system.

Known Questioned Costs

\$30,305

Underlying Cause

The Governmental Development Bank was not sending Secretary's office a detail of the cancelled checks.

Effect

The Department cannot reconcile the disbursements with their corresponding checks for accounting purposes.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-74 (continued)

Recommendation

The Department should ascertain that adequate source documents exists to support cash management of federal funds. The Department should also establish a record retention system to ascertain that accounting records and documents are retained for the time period required by applicable regulations and the provisions of laws, contracts or grant agreements of the program.

Management's Response

This situation arises because of the lack of detailed information provided by GDB and the PRIFAS system, which is controlled by the Puerto Rico Treasury Department. The Treasury Department started a project in 2002 to solve this problem, which affects no only ADFAN, but all the governmental agencies for which the Treasury Department acts as custodian of their funds. Part of this project is identifying all payment information and providing it to the, agencies. Once this project is completed, this situation should be corrected.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-75

State Agency	Catalog Number	Program Name
U.S. Social Security Administration	CFDA #96.001	Disability Determination Services

Topic Sentence

The Department could not locate evidence to support disbursements.

Category

Compliance/Internal Control

Compliance Requirement

Allowable Costs/Costs Principles

Criteria

As per OMB Circular A-102 Subpart C, Section 20 (2), grantees and sub-grantees must maintain records, which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to the grant or sub-grant awards and authorizations, obligations, un-obligated balances, assets, liabilities, outlays or expenditures, and income. Accounting records must be supported by such source documentation as cancelled invoices, pre-audited invoices, paid bills, payrolls, time and attendance records, etc. Except as otherwise provided, records must be retained for three years.

Condition Found

In testing compliance with allowable costs and cost principles we examined 18 vouchers for payments amounting to \$30,304.54 and evaluated the procedures implemented to comply with the regulations of the Federal Programs and Internal Control for the fiscal year ended June 30, 2001. We noted the following exceptions:

Payment Voucher Number	Amount	Payment Voucher Not - Processed in System	Evidence, of Payment
39796	\$291.30	X	X
400027	256.60	X	X
	\$547.90		

Known Questioned Costs

Questioned costs are included in Finding Number 01-74.

Underlying Cause

The Department process for accounting records of expenses is not effective.

Effect

The Department may have expended funds for unallowable activities, which could result in disallowed costs by federal awarding agency.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-75 (continued)

Recommendation

The Department should establish a record retention system to ascertain that accounting records and documents are retained for the time period required by applicable regulations and the provisions of laws, contracts or grant agreements of the program.

Management's Response

The Department acknowledged our finding and agreed with our recommendation.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-76

State Agency	Catalog Number	Program Name
U.S. Social Security Administration	CFDA #96.001	Disability Determination Services

Topic Sentence

The Department lacks accountability over property, plant and equipment acquired with federal funds.

Category

Internal Control/Compliance

Compliance Requirement

Equipment and Real Property Management

Criteria

As per OMB Circular A-102, every two years, at a minimum, a physical inventory shall be conducted and the results shall be reconciled with property records to verify the existence, current utilization, and continued need for the equipment. Any discrepancies between quantities determined by the physical inspection with those shown in the accounting records shall be investigated to determine the causes of the differences. Property records shall be accurate. Property records shall include the following for each item:

1. A description of the equipment including manufacturer's serial numbers.
2. Identification number, such as the manufacturer's serial numbers.
3. Identification of the grant under which the recipient acquired the equipment.
4. The information needed to calculate the federal share of the cost of the equipment.
5. Acquisition date and unit acquisition cost.
6. Location, use and condition of the equipment and the date the information was obtained.
7. All pertinent information on the ultimate transfer, replacement, or disposal of the equipment.

Condition Found

We noted that the Fiscal Office of DDS program has not completed the inventory report for the fiscal year 2000-2001.

Known Questioned Costs

None

Underlying Cause

The Department does not maintain accurate records of acquisitions, physical location and dispositions of property acquired with federal funds.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-76 (continued)

Effect

The Department is exposed to the risk of possible unauthorized use and disposition of equipment due to the lack of internal controls and the lack of adequate property and equipment records. The possible misappropriation of the equipment acquired with federal funds could result in disallowed costs.

Recommendations

The Department's management should conduct periodic inventories and follow up on inventory discrepancies. In addition, the Department's management should review all dispositions of property to ascertain appropriate valuation and reimbursement to federal awarding agencies.

Management's Response

In May 2002 an employee was appointed as the responsible for all property and equipment of the program.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-77

State Agency	Catalog Number	Program Name
U.S. Social Security Administration	CFDA #96.001	Disability Determination Services

Topic Sentence

The Department could not locate evidence to support disbursements related to payroll charged to the program.

Category

Compliance/Internal Control

Compliance Requirement

Allowable Costs/Costs Principles

Criteria

As per OMB Circular A-102 Subpart C, Section 20 (2), grantees and sub-grantees must maintain records, which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to the grant or sub-grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. Accounting records must be supported by such source documentation as cancelled invoices, pre-audited invoices, paid bills, payrolls, time and attendance records, etc. Except as otherwise provided, records must be retained for three years.

Condition Found

In testing the compliance of the allowable costs and cost principles, we examined 18 employee records and its related payroll information to evaluate the procedures implemented to comply with the regulations of the Federal Programs and Internal Control for the fiscal year ended June 30, 2001. We noted the following exceptions:

- Three cases did not have a copy of the Social Security card in their files.
- Two cases did not have evidence of education in their files.

Known Questioned Costs

None

Underlying Cause

The Department's process for employee record retention is not effective.

Effect

The Department may have expended funds for unallowable activities, which could result in disallowed costs by the federal awarding agency.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-77 (continued)

Recommendation

The Department should improve the process of record retention of documents required for each employee that works for this program in order to ascertain that the documents are retained for the time period required by applicable regulations and the provisions of laws.

Management's Response

The Department acknowledged our finding and agreed with our recommendation.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-01

Accounting and Finance Department

Topic Sentence

The Department has significant deficiencies in its internal control structure, accounting and financial management systems, budgetary controls and financial reporting practices.

Category

Internal Control

Compliance Requirement

All applicable compliance requirements as stated in OMB Circular A-133.

Criteria

Auditees must prepare their financial statements in accordance with generally accepted accounting principles (GAAP). OMB Circular A-133 section 310, states that the auditee shall prepare financial statements that reflect its financial position, results of operations or changes in net assets, and, where appropriate, cash flows for the fiscal year audited.

GASB Codification section 1200, "Generally Accepted Accounting Principles and Legal Compliance," states that a governmental accounting system must make it possible, both: (a) to present fairly and with full disclosure the financial position and results of operations of the funds and account groups of the governmental unit in conformity with GAAP, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

GASB Codification section 1300, "Fund Accounting", states that governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts to record cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

GASB Codification Section 1900, states that governmental entities should prepare interim and year-end financial statements and reports of financial position, operating results, and other pertinent information to facilitate management control of financial operations, legislative oversight, and for external reporting purposes.

OMB Circular A-102 Subpart C, Section 20, states that a state must expend and account for grant funds in accordance with state laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the state, as well as its subgrantees and costtype contractors, must be sufficient to permit preparation of reports required by this part and the statutes authorizing the grant, and permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes. The financial management systems must meet the following standards:

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: O1-OI (continued)

Criteria (continued)

- Financial reporting: accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- Accounting records: grantees and subgrantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- Internal control: effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
- Budget control: actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.
- Allowable cost: applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.
- Source documentation: accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.
- Cash management: procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions report to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements.

In addition to the above requirements, the Department's internal control system must provide for reconciliation of amounts reflected in control accounts with subsidiary records and the reconciliation of transactions and balances between different departments and agencies.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-01 (continued)

Condition Found

The Department has an inadequate internal control structure and has not established accounting policies, procedures, and financial reporting practices necessary to conform to generally accepted accounting principles, (GAAP), as applicable to governmental entities. Significant deficiencies noted are as follows:

- There is a lack of an effective internal control structure to reasonably assure compliance with the requirements of federal laws, regulations and program compliance requirements. The Department has deficiencies in internal control such as the absence of sufficient level of control consciousness throughout all of the Department's separate administrative operations, the absence of an appropriate segregation of duties, the absence of appropriate management review and approval of transactions, accounting entries and financial and other reporting.
- There are inadequate procedures for appropriately assessing and applying accounting principles, inadequate provisions for the safeguarding of assets, the absence of an accounting procedures manual and the absence of many controls considered appropriate for an entity of this size and type.
- There is a lack of a self-balancing set of accounts for each fund to record cash and other financial resources, together with the related liabilities, residual equities balances or fund balances, and any related changes therein. Accounts should be segregated in funds or subfunds for purposes of demonstrating the accountability of the Department while carrying on a specific activity or attaining certain objectives in accordance with special regulations, restrictions or limitations.

In addition to the general deficiencies mentioned in the preceding paragraph we found the following:

- The Department did not furnish a financial statement line item budget for the Special Revenue Fund on a fiscal year basis coinciding with the Department's annual reporting period.
- The Department does not reconcile federal grant revenues recorded in the Department's records, with the amounts disbursed by the Puerto Rico Treasury Department. The Treasury Department is the agency that makes all disbursements made by the Department of the Family.

Known Questioned Costs

None

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-01 (continued)

Underlying Cause

The Department's management has not adopted a policy of following accounting principles generally accepted in the United States that are applicable to governmental entities. In addition, management has not adopted and enforced internal control policies and procedures over its accounting and financial management, budgetary practices and financial reporting, and has not ensured that the Department is in compliance with applicable laws, regulations and grant provisions.

Effect

The Department's ineffective internal control structure is conducive to many deficiencies as described in the numerous findings contained in this report. The continued existence of these deficiencies could result in significant cost disallowances by the federal awarding agencies or ultimately, in the reduction or elimination of federal awards received by the Department.

Recommendation

The Department should implement an internal control structure to provide reasonable assurance that:

- Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and federal reports, maintain accountability over assets; and demonstrate compliance with laws, regulations; and other compliance requirements
- Transactions are executed in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a federal program.
- Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

The Department should also reorganize its accounting practices and policies to conform with GAAP. This will require a plan for the implementation of an accounting and financial management system that permits the preparation of financial statements in accordance with GAAP and of financial reports required by the different oversight entities. This plan should cover the operations of the central, regional, and district offices, consider the forthcoming changes and developments in the governmental accounting industry and their impact on the financial and operational practices of the Department, and demonstrate accountability over the federal programs and the related accounts receivable from the federal government.

In addition, the Department should be prepared to take the necessary steps for the successful future adoption of accounting developments such as statement No. 34 of the Government Accounting Standards Board.

Management's Response

The Department acknowledged our finding and agreed with our recommendation.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-02

Accounting and Finance Department

Topic Sentence

The Department does not have an effective filing system.

Category

Internal Control

Compliance Requirement

All applicable compliance requirements as stated in OMB Circular A-133.

Criteria

OMB Circular A-102, part C, Section 20 (a)(2) of the Uniform Administrative Requirements for Grants Agreements to state and local governments establishes that fiscal control and accounting procedures of the state must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes.

Condition Found

During our audit, we noted that the procedures followed by personnel at the Filing Division did not permit the timely retrieval of documents requested. In addition, we observed that various payment documents processed by the different federal program accountants and the personnel at the Payment Division are maintained and filed at the divisions without an organized system. A substantial number of documents requested in connection with the testing of compliance with laws, regulations, grant requirements and testing of internal controls could not be found.

Known Questioned Costs

None (Amounts identified are included in subsequent findings).

Underlying Cause

The Department has inadequate internal controls over record retention and the filing of documents due to the lack of an overall control system that provides guidance to the different agencies and divisions on the filing and retention requirements of documents.

Effect

The Department cannot support many of the disbursements made and therefore is unable to prove compliance with applicable laws and regulations. The continued occurrence of this situation could result in disallowed costs by the federal awarding agencies and the reduction or elimination of federal grant awards.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-02 (continued)

Recommendation

The Department's management should ascertain that adequate source documents exist to support amounts and items reported as expenditures. The Department should also establish a record retention system to ensure that accounting records and documents are retained for the time period required by applicable requirements and the provisions of laws, regulations, contracts or grant agreements applicable to the program.

Management's Response

The Department acknowledged our finding and agreed with our recommendation.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-03

Accounting and Finance Department

Topic Sentence

The Department did not comply with the established due date for the submission of the required Single Audit Report.

Category

Internal Control/Compliance

Compliance Requirement

All applicable compliance requirements as stated in OMB Circular A-133.

Criteria

OMB Circular A-133, Subpart C, Section 320 of the Uniform Administrative Requirements for Grants Agreements to state and local governments establishes that all audits shall be completed and submitted to the cognizant agency within the earlier of 30 days after receipt of the auditor's report or nine (9) months after the end of the audit period. However, for fiscal year beginning on or before June 30, 2000, it was submitted 13 months after the end of the audit period was permitted.

Condition Found

The Department does not have a program in place to comply with the deadlines established by federal law for the submission of Single Audit reports. As a result, the Department did not comply with the required submission date of the Single Audit for the fiscal year ended June 30, 2001. The due date for this report was no later than July 31, 2002. It should also be noted that the Single Audit report for the fiscal year ended June 30, 2000 was submitted later than the required due date established by federal regulations.

Known Questioned Costs

None

Underlying Cause

Due to the failure to ensure that adequate accounting records exist and that the timely and accurate closing of books occurs, management did not comply with the requirements established in OMB Circular A-133.

Effect

The Department could be exposed to a reduction or elimination of funding by the federal awarding agencies.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-03 (continued)

Recommendation

The Department should establish aggressive monthly closing schedules and improve its year-end closing procedures to allow for the timely performance of the Single Audit and enable the Department to comply with the reporting requirements established by applicable regulations.

Management's Response

The Department acknowledged our finding and agreed with our recommendation.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-05

State Agency	Catalog Number	Program Name
U.S. Department of Agriculture Rico	CFDA #10.566	Nutrition Assistance Program for Puerto Rico

Topic Sentence

The Department has deficiencies in the execution of property management procedures.

Category

Internal Control/Compliance

Compliance Requirement

Equipment Management

Criteria

As per 7 CFR Part 3015, Subpart R, section 3015.169, property records shall be accurately maintained. The records shall include, for each item of equipment, a description of the equipment including manufacturer's serial numbers, identification number, identification of the grant under which the recipient acquired the equipment, the information needed to calculate the federal share of the equipment, the acquisition date and unit acquisition cost, the location, use and condition of the equipment and the date the information was reported and all pertinent information on the ultimate transfer, replacement, or disposal of the equipment.

In addition, every two years, at a minimum, a physical inventory shall be conducted and the results shall be reconciled with the property records to verify the existence, current utilization, and continued need for the equipment. Any discrepancies between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the differences.

Condition Found

The Department does not perform a reconciliation of the physical inventory with the accounting records. In addition, the following items are not specified in the Department's property subsidiary ledger:

- The percentage of federal participation in the cost of the property
- The grant under which the recipient acquired the equipment
- All information on the ultimate transfer, replacement or disposal of the equipment

Total Nutritional Assistance Program for Puerto Rico's property and equipment additions for the fiscal year ended June 30, 2001 amounted to \$42,088.

Known Questioned Costs

None

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-05 (continued)

Underlying Cause

The Department does not have procedures to maintain accurate records for acquisitions and dispositions for property acquired with federal funds. Management does not have knowledge of federal requirements regarding property acquired with federal funds.

Effect

The Department is exposed to the risk of possible unauthorized use and disposition of equipment due to the lack of internal controls and the lack of adequate property and equipment records. The possible misappropriation of the equipment acquired with federal funds could result in disallowed costs.

Recommendation

The Department must implement internal control procedures to ascertain that the requirements of property acquired with federal funds are met. Management and employees should receive trainings and written policies and procedures must be prepared.

Management's Response

The Department acknowledged our finding and agreed with our recommendation.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding. Num. 01-07

State Agency	Catalog Number	Program Name
U.S. Department of Agriculture	CFDA #10.568	The Emergency Food Assistance Program - TEFAP

Topic Sentence

The Department disbursed federal funds before a signed contract.

Category

Internal Control/Compliance

Compliance Requirement

Allowable Costs/Costs Principles

Criteria

A-102 Common Rule and OMB Circular A-110 require than non- Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. In addition, *ultravires clause* of the contract indicates that no service will be rendered until the signing of the contract by both parts. This clause is ruled by the Contract Granting Regulation for the Department of the Family.

Condition Found

We noted that the following contracts were signed after the beginning of a period of effectiveness:

<u>Contract Number</u>	<u>Program Contribution Amount</u>	<u>Effective Date</u>	<u>Signed Date</u>	<u>Questioned Costs</u>
127-200120	\$ 24,720.00	8/1/2000	9/29/2000	\$ 24,720.00
127-200165	78,478.93	10/1/2000	11/3/2000	78,478.93
127-200117	800.00	7/18/2000	8/8/2000	62.50
127-200154	<u>7,977.00</u>	10/1/2000	10/20/2000	<u>664.75</u>
Total amount	<u>\$111,975.93</u>			<u>\$103,926.18</u>

Known Questioned Costs

Questioned costs are included in Finding Number O1-08.

Underlying Cause

The Department's internal control for contract evaluation and authorization is inadequate.

Effect

The Department may have expended funds for unallowable activities, which could result in disallowed costs by federal awarding agency.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-07 (continued)

Recommendations

The Department should ascertain that adequate source documentation exist to support the process for contracting goods and services. The Department should also establish a system to ascertain that the contracts complied with requirements, regulations and the provisions, of law and program requirements. No services should be paid without a signed contract.

Management's Response

The Department acknowledged our finding and agreed with our recommendation.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-08 (continued)

Condition Found (continued)

	Amount Paid as of June 30, 2001	Contract Number	Budget Amount
1	\$ -	127-980045	\$ 7,500.00
2	24,720	127-200120	24,720.00
3	444,135	127-200165	609,838.00
4	750	127-200117	800.00
5	4,017	122-000149	5,071.10
6	-	122-0100111	7,500.00
7	5,011	122-000148	5,010.71
8	10,751	122-0100157	22,500.00
9	642	122-0100114	720.00
	\$490,026		\$683,659.81

Known Questioned Costs

\$490,026

Underlying Cause

The Department's internal control of contract evaluation and authorization is inadequate.

Effect

The Department may have expended funds for unallowable activities, which could result in disallowed cost by federal awarding agency.

Recommendation

The Department should ascertain that adequate source documents exist to support the process of contracting professional services, goods and services, etc. The Department should also establish a record retention system to ascertain that documents are retained for the time period required by applicable regulations and the provisions of law, contracts or grant agreements of the program.

Management's Response

The Department acknowledged our finding and agreed with our recommendation.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-14

State Agency	Catalog Number	Program Name
U.S. Department of Agriculture	CFDA #10.568	The Emergency Food Assistance (TEFAP)

Topic Sentence

The Department filed Financial Status Reports that do not agree with the General Ledger.

Category

Compliance/Internal Control

Compliance Requirement

Reporting

Criteria

As per 7 CFR Section 251.10 (d)(1) standard for financial management systems related to internal control, effective control and accountability must be maintained for all grants and subgrants cash, real property and other assets, and accurate and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grants and sub-grants.

Condition Found

We could not agree the amounts of disbursements in the General Ledger to the Federal Financial. Status Report. The differences presented between those reports are as follows:

Quarterly Ending	General Ledger	Financial Status Report	Financial Status Report Over/(Under)
9-30-2000	\$ -	\$ 395,932.61	\$395,932.12
12-31-200	68,870	65,572.88	(3,297.12)
3-31-2001	586,889	575,806.03	(11,082.97)
6-30-2001	-	339,149.69	339,149.69
Total	\$655,759	\$1,376,461.21	\$720,701.72

Known Questioned Costs

\$720,701

Underlying Cause

There is inadequate control over the information used to prepare federal reports, no personnel has been assigned to verify the accuracy and completeness of the data and reconcile the data in the federal reports with the data in the accounting department.

Effect

Inaccurate reporting performance prevents the federal awarding agency from monitoring of the program's financial activities, assessing the achievements of the program and evaluating the grant award for the following year and could result in questioned costs.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-14 (continued)

Recommendation

The Department should conduct reviews of the Financial Status Report prior to filing by comparing amounts to supporting records to ascertain accurate reporting of award activities to the awarding agency. Periodic reconciliations should be performed by the Federal Reports Department and the Accounting Department. Differences should be analyzed and resolved.

Management's Response

The Department acknowledged our finding and agreed with our recommendation.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-27

State Agency	Catalog Number	Program Name
Federal Emergency Management Agency	CFDA #83.543	Individual and Family Grants

Topic Sentence

The Department had delays in the time elapsed between the transfer of federal funds and the disbursements of the funds.

Category

Compliance/Internal Control

Compliance Requirement

Cash Management

Criteria

31 CFR 205.6 establishes that the Pre-issuance funding is a method of transferring Federal funds to the State prior to the date the State issues checks or initiates payments. When this funding technique is applied, a state will incur an interest liability to the Federal Government from the day the Federal funds are credited to a state account to the day the State pays out the funds for programs purposes. A State shall request funds not more than three days prior to the day on which it makes a disbursement, and a Federal agency shall deposit funds in a State account the next business day after receiving a request for funds.

Condition Found

In testing compliance with cash management, we reviewed the report of disbursements to beneficiaries of the program and the procedures implemented to minimize the time elapsed between the transfer of Federal Funds and the pay out of funds for program purposes. During our testing, we noted the following:

- ◆ Each request for funding was made while the fund account in the Treasury Department still had a remaining balance. The use of the funds requested begins at least a week after the request for funds. In some instances the time elapsed for using the requested funds was more than two weeks.
- ◆ The Request for Funds for Federal Award 1372 was made through Smartlink and no hard copies were available.
- ◆ The State has made excess draw down in the amount of \$1,126,275 that needed to be returned to FEMA within 30 days, from December 20, 2001. Nonetheless, the balance of the account 222-1270000-FEMA1372DRPR-081-2001-E000 at January 24, 2002 is \$377,504 for a difference of \$749,071. There's no evidence of the use of the difference of the remaining balance as of January 24, 2002.

Known Questioned Costs

\$1,126,275

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-27 (continued)

Underlying Cause

The Department requested funds more than three days prior to the day on which it makes a disbursement and also request funds for unallowable activities not related to the IFG program.

Effect

The Department may incur in an interest liability to the Federal Government from the day the Federal funds are credited to a state account to the day the State pays out the funds for programs purposes. Excess funds must be returned immediately.

Recommendation

The Department should ascertain that adequate source documents exist to support the cash management of federal funds. Procedures should be established to ascertain that the time elapsed between the receipt and use of funds is minimal. The Department should also establish a record retention system to ascertain the compliance with the time period required by applicable regulations and the provisions of laws, contracts or grant agreements of the program. The state must conduct periodic monitoring to avoid these situations.

Management's Response

The Department acknowledged our finding and agreed with our recommendation. The amounts questioned were subsequently returned to the federal government as follows:

Amount Returned	Check Number	Check Date
\$1,000,000.00	00743396	March 1, 2002
164,254.75	00763974	April 9, 2002
\$1,164,254.75		

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-91

State Agency	Catalog Number	Program Name
U.S. Department of Health and Human Services	CFDA #93.600	Head Start Program

Topic Sentence

The Department does not have a cost allocation approved.

Category

Compliance

Compliance requirement

Allowable Costs/Costs Principles

Criteria

Subpart C of the Code of Federal Regulations Number 45 CFR 74.27 states that grantees should follow costs principles under the requirements of OMB Circular A-133. This Circular requires formal plan of allocation of costs to support the distribution of any joint costs related to the grant program. The DHHS is responsible for the negotiation and approval of the cost allocation plan prepared by state agencies.

Condition Found

The Department does not have an approved Cost Allocation Plan from the Federal Cognizant Agency for the Program year 2000-2001 to cover indirect costs for the amount of \$1,485,903 and was not included in the Financial Assistance Award approved. The DHHS has requested this Plan updated on prior periods. The Department presented, subsequent to the date of the accompanying financial statements, a Plan for the federal agency's consideration.

In addition, the Department paid the amount of \$685,163 to the Department of the Family to cover indirect costs. However, we reviewed the approved Head Start Program's proposal for program year 2000-2001 and this activity of indirect cost was not included in the Proposal. According to the Indirect Cost Agreement dated May 17, 2001, it is established that "if any federal contract, grant or other agreement is reimbursement indirect cost by a means other than the approved rate(s) in this agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these program." We did not find evidence that the Department followed this federal requirement.

Known Questioned Costs

\$2,171,066

Underlying Cause

The Department failed to submit and have an approved Cost Allocation Plan for the current Program Year, as required by Subpart C of the Code of Federal Regulations Number 45 CFR 74.27 and follow the federal requirement of the agreement.

Commonwealth of Puerto Rico
Department of the Family

Schedule of Findings and Questioned Costs (continued)

Finding Number: 01-91 (continued)

Effect

The Department's Cost Allocation Plan was not approved for the Program year 00-01 and charges for indirect costs to the Program are not in compliance with the requirement of the DHHS and agreement dated May 17, 2001.

Recommendation

We recommend the Department to obtain as soon as possible the approval of its Cost Allocation Plan, to be in compliance with Federal Regulations and follow the federal requirement of the agreement.

Management's Response

The Department agrees with this finding. A Corrective Action Plan will be prepared.

Overview of the Office of the Inspector General

Office of Audit

The Office of Audit (OA) conducts comprehensive financial and performance audits of the Social Security Administration's (SSA) programs and makes recommendations to ensure that program objectives are achieved effectively and efficiently. Financial audits, required by the Chief Financial Officers' Act of 1990, assess whether SSA's financial statements fairly present the Agency's financial position, results of operations and cash flow. Performance audits review the economy, efficiency and effectiveness of SSA's programs. OA also conducts short-term management and program evaluations focused on issues of concern to SSA, Congress and the general public. Evaluations often focus on identifying and recommending ways to prevent and minimize program fraud and inefficiency, rather than detecting problems after they occur.

Office of Executive Operations

The Office of Executive Operations (OEO) supports the Office of the Inspector General (OIG) by providing information resource management; systems security; and the coordination of budget, procurement, telecommunications, facilities and equipment, and human resources. In addition, this office is the focal point for the OIG's strategic planning function and the development and implementation of performance measures required by the *Government Performance and Results Act*. OEO is also responsible for performing internal reviews to ensure that OIG offices nationwide hold themselves to the same rigorous standards that we expect from SSA, as well as conducting investigations of OIG employees, when necessary. Finally, OEO administers OIG's public affairs, media, and interagency activities, coordinates responses to Congressional requests for information, and also communicates OIG's planned and current activities and their results to the Commissioner and Congress.

Office of Investigations

The Office of Investigations (OI) conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement of SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, physicians, interpreters, representative payees, third parties, and by SSA employees in the performance of their duties. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Counsel to the Inspector General

The Counsel to the Inspector General provides legal advice and counsel to the Inspector General on various matters, including: 1) statutes, regulations, legislation, and policy directives governing the administration of SSA's programs; 2) investigative procedures and techniques; and 3) legal implications and conclusions to be drawn from audit and investigative material produced by the OIG. The Counsel's office also administers the civil monetary penalty program.