



AUG 26 1994

TO: The Secretary  
Through: DS \_\_\_\_\_  
COS \_\_\_\_\_  
ES \_\_\_\_\_

FROM: Inspector General

SUBJECT: Audit of Puerto Rico's Escheated Warrants for  
the Period July 1, 1986 through June 30, 1993--  
INFORMATION MEMORANDUM

PURPOSE

The purpose of this information memorandum is to advise that we plan to issue to Puerto Rico a final report on its handling of escheated warrants on August 29, 1994. Because of the financial difficulties in Puerto Rico, the persistence of this problem, and the significance of the audit findings, the Department can anticipate contacts from Puerto Rico officials, congressional officials and the media.

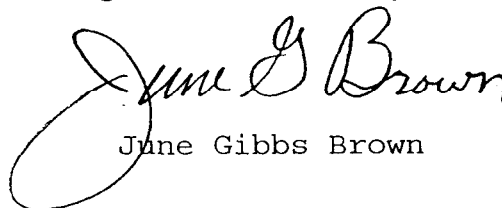
INFORMATION TEXT

Over the last 15 years, we have issued 11 reports dealing with Puerto Rico's failure to credit Federal programs for escheated warrants or uncashed, canceled checks. After repeated audit recommendations, follow-ups, and meetings with Puerto Rico officials, Puerto Rico has yet to implement adequate procedures whereby Federal programs receive appropriate, timely credit for their share of uncashed, canceled checks. Although in responding to prior audits, the State has acknowledged the need for corrective action, we found that effective solutions have yet to be implemented.

This current review found that the Federal programs have not received credit for their share of uncashed, canceled checks which exceeded \$55.2 million during the period July 1, 1986 through June 30, 1993. Because the check-by-check review process would be so time intensive for Puerto Rico and because Puerto Rico had not maintained adequate supporting records for this \$55.2 million, we developed an estimate that the Federal programs are due about \$15.4 million. The Department's Division of Audit Resolution has responsibility under the Office of Management and Budget Circular A-87 for resolving crosscutting governmentwide findings such as those discussed in this report.

Page 2 - The Secretary

Again, in responding to a draft of this report, Puerto Rico has generally agreed with the audit recommendations, however, it has yet to provide a detailed plan of action and timetable to resolve the problems. A reasonable date should be established for Puerto Rico to establish an amount acceptable to the Department, make the refund and establish the necessary control and processing procedures to preclude recurrence of the problem. Because of the long-standing, repetitive nature of this problem, we believe the Department should request that Puerto Rico make an immediate payment to the Federal Government for the reasonable estimate of credits due to Federal programs. If Puerto Rico fails to comply with these provisions, the Department should strongly consider withholding future funding until they are implemented.

A handwritten signature in cursive script that reads "June Gibbs Brown". The signature is written in dark ink and is positioned above the printed name.

June Gibbs Brown

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Memorandum

Date . AUG 26 1994  
From June Gibbs Brown, Inspector General *June G Brown*  
Subject Review of the Puerto Rico's Treasury Department Escheated Warrants for the Period July 1, 1986 Through June 30, 1993 (A-02-94-02000)  
To Kenneth S. Apfel  
Assistant Secretary for  
Management and Budget

This is to alert you to the issuance on August 29, 1994 , of our final report. A copy is attached.

Over the last 15 years, we have issued 11 reports dealing with Puerto Rico's failure to credit Federal programs for escheated warrants or uncashed, canceled checks. After repeated audit recommendations, follow-ups, and meetings with Puerto Rico officials, Puerto Rico has yet to implement adequate procedures whereby Federal programs receive appropriate, timely credit for their share of uncashed, canceled checks. Federal cost principles require that costs charged to Federal programs must be reduced by applicable credits from these uncashed, canceled checks. During this current review, we found that the Federal programs have not received credit for their share of uncashed, canceled checks which exceeded \$55.2 million.

The Federal programs were not credited because Puerto Rico has yet to implement an adequate process for the timely review, analysis, and crediting of the uncashed, canceled checks. Although we have cited these inadequacies in prior audits and the State has acknowledged the need for corrective action, we found that effective solutions have yet to be implemented. For example, the Puerto Rico Treasury Department (PRTD) has not provided the State agencies with clear instructions for: (1) the analysis of canceled uncashed checks and (2) the processing of credits to the Federal programs. The PRTD is not distributing complete listings of uncashed, canceled checks to the State agencies in a timely manner. Moreover, most of the State agencies we visited could not locate necessary listings, were unaware of their existence and did not know what should be done with them.

Determination of the exact amount of the Federal share of the \$55.2 million cannot be accomplished unless the State agencies analyze all the listings of the canceled checks

prepared by PRTD on a line-by-line, check-by-check basis. This is a time-consuming effort and may not produce valid results due to missing and incomplete listings and the passage of time. Accordingly, we are proposing that PRTD implement, in cooperation with the Department of Health and Human Services (HHS) Division of Audit Resolution (DAR), an alternate estimation procedure, subject to DAR approval, to determine the Federal portion and return that amount to the Federal Government. We are also making recommendations designed to improve future performance.

In commenting on the draft report, PRTD indicated it does not consider it necessary to estimate the amount of the credits due the Federal programs. The PRTD generally agreed with the balance of the audit recommendations. However, it has not provided a detailed plan of action and timetable to ensure that the problems which have resulted in the failure to credit the Federal programs are promptly resolved.

The PRTD indicated that it believed it had reconstructed the details for listing all the uncashed, canceled checks for the period audited. The PRTD proposed to use this data and determine the actual amount of the credits due the Federal programs. However, we reviewed the reconstructed data and found it is incomplete as it does not include at least 43 percent of the uncashed, canceled checks for that period. We do not believe this data can be made sufficiently accurate and complete to effectively determine the actual credits due the Federal programs. Moreover, our past experience with two large Puerto Rico agencies showed that it took an extremely long period even when the data was available for them to determine the actual amount of the Federal credits. For a similar 7-year period the line-by-line review required 5 years to complete. Thus, to expedite the credits to the Federal programs which have already been excessively delayed, we continue to recommend that PRTD implement an alternate procedure to estimate the amount of the credits owed to the Federal programs.

One technique for equitably estimating the credits due Federal programs is to determine the percentage of Federal expenses within Puerto Rico's budget. For the period July 1, 1986 through June 30, 1993, Federal expenses constituted 28 percent of the total Puerto Rico budget. By applying this ratio to the \$55.2 million of uncashed, canceled checks, we believe the Federal programs are due about \$15.4 million. Since HHS program

Page 3 - Kenneth S. Apfel

expense constitutes about 22 percent of the total Federal expenses during this period, about \$3.4 million is applicable to HHS programs.

Because of the long-standing, repetitive nature of this problem, we believe the Department should request that Puerto Rico make an immediate payment to the Federal Government for the reasonable estimate of credits due Federal programs for the period July 1, 1986 through June 30, 1993. Further, Puerto Rico should be required to submit, for Department approval, a detailed plan and timetable which is responsive to our audit recommendations and is designed to ensure timely review and credit of canceled checks to Federal programs. A reasonable date should be established for Puerto Rico to make the refund and establish the necessary control and processing procedures. If Puerto Rico fails to comply with these provisions, the Department should strongly consider withholding future funding until compliance is obtained.

Attachment

For further information contact:

John Tournour  
Regional Inspector General for Audit Services  
(212) 264-4620

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF THE PUERTO RICO'S  
TREASURY DEPARTMENT ESCHEATED  
WARRANTS FOR THE PERIOD  
JULY 1, 1986 THROUGH  
JUNE 30, 1993**



**JUNE GIBBS BROWN  
Inspector General**

**AUGUST 1994  
A-02-94-02000**



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office Of Inspector General  
Office Of Audit Services

Region II  
Jacob K. Javits Federal Building  
26 Federal Plaza  
New York, NY 10278

Our Reference: Common Identification No. A-02-94-02000

The Honorable Manuel Diaz Saldana  
Secretary  
Puerto Rico Department of Treasury  
P. O. Box S-4515  
Santurce, Puerto Rico 00902-4515

Dear Mr. Diaz Saldana:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services' (OAS) report entitled "REVIEW OF THE PUERTO RICO TREASURY DEPARTMENT ESCHEATED WARRANTS FOR THE PERIOD JULY 1, 1986 THROUGH JUNE 30, 1993." A copy of this report will be forwarded to the action official noted below for his review and any action deemed necessary.

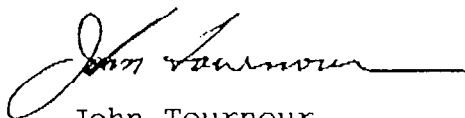
Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), HHS/OIG Office of Audit Services reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act, which the Department chooses to exercise. (See 45 CFR Part 5.)

Page 2 - The Honorable Manuel Diaz Saldana

To facilitate identification, please refer to the referenced common identification number A-02-94-02000 in all correspondence relating to this report.

Sincerely yours,



John Tournour  
Regional Inspector General  
for Audit Services

Enclosures - as stated

Direct Reply to HHS Action Official:

Director, Division of Audit Resolution  
Office of Grants Management  
Assistant Secretary for Management and Budget  
U.S. Department of Health and Human Services  
W. J. Cohen Building, Room 1067  
330 Independence Avenue, SW  
Washington, D.C. 20201



## SUMMARY

Federal cost principles provide that to be allowable under a Federal program, costs must be reduced by applicable credits. Applicable credits include checks, representing costs previously charged to Federal programs, which have not been cashed and, therefore, subsequently canceled i.e., escheated warrants. In Puerto Rico, for the Federal programs to receive their share of these credits, the Puerto Rico Treasury Department (PRTD) must provide the various Commonwealth agencies, such as the Department of Health, with complete listings of the canceled uncashed checks timely. Further, PRTD must assure that the State agencies promptly process the listings and appropriately credit the Federal programs.

Our review disclosed that the Federal programs have not received credit for their share of the canceled uncashed checks although we estimate that PRTD has processed at least \$55.2 million of such checks from July 1, 1986 to June 30, 1993 for the State agencies whose funds it controls. Based upon past experience, we believe this share is significant.

The failure to credit the Federal programs is attributable to inadequacies in the management of and implementation of the canceled uncashed check process by both PRTD and the State agencies. We have reported these inadequacies in prior audits but despite management's acknowledgement of the need to take corrective action, problems continue to exist. For PRTD, these inadequacies include PRTD's failure to distribute the listings of canceled uncashed checks to the State agencies on a timely basis. Moreover, the listings distributed were not complete as they did not include vendor uncashed checks but were limited to payroll checks. In addition, PRTD has not provided the State agencies with clear instructions for the analysis of the canceled checks and the processing of credits to the Federal programs nor has it established a means of monitoring State agency performance relative to canceled uncashed checks.

For their part, our contacts with five State agencies revealed they were not analyzing the canceled uncashed checks listings received from PRTD and processing the credits to the Federal programs. Most could not locate all the listings, were unaware of their existence and did not know what should be done with them.

Determinations of the exact amount of the Federal share of these checks cannot be accomplished until the State agencies analyze the listings of the canceled checks received from PRTD on a check-by-check basis. This is a time-consuming effort and may not produce valid results due to the weaknesses noted above. Accordingly, we in conjunction with the Health and Human Services (HHS) Division of Audit

Resolution (DAR), are proposing that PRTD develop an alternate procedure, subject to DAR approval, to estimate the amount due the Federal Government. We are also making recommendations designed to improve future performance. This includes recommending that PRTD provide the State agencies with complete and timely listings of canceled uncashed checks; issue instructions for the analysis of the canceled checks and the processing of credits to the Federal programs, monitor State agency performance, and direct the State agencies to perform studies to determine and remove the causes for the large number of canceled uncashed checks.

In its comments to the draft report, PRTD indicated that it had been able, with the cooperation of the Government Development Bank for Puerto Rico (GDB), to reconstruct the details of the canceled uncashed checks for the period July 1, 1986 through June 30, 1993. Since PRTD maintains that the data is now available, it does not consider it necessary to estimate the amount of the credits due the Federal programs. However, we found that the canceled uncashed check data developed by PRTD in cooperation with the GDB is incomplete and does not include a substantial number, at least 43 percent, of the canceled uncashed checks for that period. Since the incomplete data cannot be used to fully determine the credits due the Federal programs, we are still recommending that PRTD develop an alternate procedure to estimate the amount of the credits due the Federal programs. PRTD also indicated that it has begun a project to modernize the payroll system and has obtained information on what the State agencies' problems are at present with regard to the canceled uncashed checks. It is in agreement with the balance of the audit recommendations. The detailed comments of PRTD are included in this report as Appendix A. Extracts of these comments and our discussion of them, where appropriate, appear at the end of the Findings and Recommendations section of this report.

## TABLE OF CONTENTS

	<u>PAGE</u>
SUMMARY	i
INTRODUCTION	1
Background	1
Scope of Audit	2
FINDINGS AND RECOMMENDATIONS	3
Credits Due Federal Programs from the Cancellation of Uncashed Checks	3
PRTD Records	4
Responsibilities of State Agencies	5
Proposal for Estimating Credits Due Federal Programs	6
Cash Management Improvement Act	6
Management and Operation of the Canceled Uncashed Check Process	7
Payroll Canceled Uncashed Checks	8
Vendor Canceled Uncashed Checks	9
Coordination With State Agencies	9
Causes for the Large Number of Canceled Uncashed Checks	10
Recommendations and PRTD's Comments	11
APPENDIX	
A - PRTD's Comments Dated June 30, 1994	16

## INTRODUCTION

### Background

The accounting system of the Commonwealth of Puerto Rico is administered by PRTD. This department is responsible for controlling and accounting for State and Federal funds granted to the State agencies. Through previous audits, we determined serious control deficiencies existed in PRTD and State agencies for which HHS is cognizant (Department of Social Services (DSS) and Health (PRDH)) in identifying, reporting and crediting Federal programs for their share of canceled uncashed checks. On November 17, 1981, we issued audit report ACN: 02-20603 on the analysis of outstanding checks canceled by PRTD during the period July 1, 1975 through June 30, 1979. This report indicated that the Federal Government was not receiving credit for its share of canceled checks. It attributed this to lack of coordination between PRTD and the State agencies and that State agencies had not received any information pertaining to the canceled checks from PRTD. We performed a follow-up review which covered the period July 1, 1979 through June 30, 1986 to determine the extent and adequacy of actions taken to implement our recommendations. The results of this follow-up are included in the audit report CIN: A-02-86-60601 issued on December 3, 1987. Other OIG reports have been issued regarding the processing of canceled uncashed checks of each State agency for which HHS is cognizant.

The audit report CIN: A-02-86-60601 disclosed the following conditions which for the most part are a repetition of the conditions reported in 1981:

1. Revised PRTD policies and procedures did not provide for immediate credits to Federal programs upon cancellation of unclaimed checks.
2. PRTD had failed to systematically produce and distribute monthly computer printout reports to the State agencies which contained credits due Federal programs.
3. Lack of coordination with State agencies and the absence of instructions to the State agencies and PRTD personnel for handling computer printout reports of unclaimed expired checks.

In its response to the earlier audit, PRTD agreed with our findings and recommendations and stated that a plan of action was being developed to implement our recommendations. However, we found that similar conditions continue to exist at present.

The present audit was requested by the HHS Division of Audit Resolution (DAR). The objective of the request was to obtain audit assistance in resolving the issue of uncashed canceled checks after their expiration date for the period July 1, 1986 through the Commonwealth's Fiscal Year ended June 30, 1993.

#### Scope of Audit

We performed a follow-up review of the issue of canceled uncashed checks for which a financial adjustment was due the Federal Government for the period from July 1, 1986 through June 30, 1993. Our audit was conducted in accordance with generally accepted government auditing standards.

The primary objective of this audit was to assess the PRTD procedures for processing credits to the Federal Government arising from uncashed canceled checks. Our review included tests that we considered necessary to evaluate PRTD's internal controls, and to determine whether the implemented procedures for processing credits arising from uncashed checks, were providing for their prompt reimbursement to the Federal Government. This included determining whether the:

- listings of uncashed canceled checks were being prepared and timely distributed to each State agency.
- PRTD has coordinated with State agencies to ensure their awareness of the procedures to follow upon the receipt of the unclaimed expired checks reports.

We performed the field work at PRTD's offices in San Juan, Puerto Rico from October 1993 through April 1994.

## FINDINGS AND RECOMMENDATIONS

### Credits Due Federal Programs from the Cancellation of Uncashed Checks

Although we estimate that PRTD has processed at least \$55.2 million of canceled uncashed checks from July 1, 1986 to June 30, 1993 for the State agencies whose funds it controls, the Federal programs have not received credit for their share of these funds. This is contrary to Federal cost principles which provide that costs charged to Federal programs must be reduced by applicable credits. Based upon past experience, we believe this share is significant.

The failure to credit the Federal programs, is attributable to inadequacies in the management of and implementation of the canceled uncashed check process by both PRTD and the State agencies such as the Departments of Social Services and of Health. We have reported these inadequacies in prior audits but, despite management's acknowledgement of the need to take corrective action, problems continue to exist. For PRTD, these inadequacies include PRTD's failure to distribute the listings of canceled uncashed checks to the State agencies on a timely basis. Moreover, the listings distributed were not complete as they did not include vendor uncashed checks but were limited to payroll checks. In addition, PRTD has not provided the State agencies with clear instructions for the analysis of the canceled checks and the processing of credits to the Federal programs nor has it established a means of monitoring State agency performance relative to canceled uncashed checks.

For their part, our contacts with five State agencies revealed they are not analyzing the canceled uncashed checks listings received from PRTD and processing the credits to the Federal programs. Most could not locate all the listings, were unaware of their existence and did not know what should be done with them.

Because PRTD erased the data on its tapes of canceled uncashed checks after it provided listings of these checks to the applicable State agencies, and because of limitations in its central accounting records, it was not feasible to determine the exact amount of canceled uncashed checks processed by PRTD for the period July 1, 1986 to June 30, 1993.

Determination of the exact amount of the Federal share of these checks cannot be accomplished until the State agencies analyze the listings of the canceled uncashed checks received from PRTD on a check-by-check basis. This is a time-consuming effort and may not produce valid results due to the

weaknesses noted above. Accordingly, we in conjunction with DAR, are proposing that PRTD develop an alternative procedure, subject to DAR approval, to estimate the amount due the Federal Government.

It is likely that a change in the financing of Federal programs will partially eliminate the problem of uncashed checks in the future. We were advised by PRTD that pursuant to the Cash Management Improvement Act (CMIA) most of the Federal programs or portions of them are or will be using the zero balance accounting method. Under this method funds will not be transferred from the Federal Government to the State government until the check is cashed. Zero balance accounting was begun in Puerto Rico for portions of some Federal programs effective July 1, 1993. However, based on our limited survey of the Commonwealth's implementation of the CMIA, the problem of uncashed checks will not be completely resolved as various funding techniques in addition to zero balance accounting will be used.

OMB Circular A-87, Section C.1g and C.3.a. provides that to be allowable under a grant program, costs must be net of applicable credits. Applicable credits refer to those receipts or reduction of expenditure-type transactions which offset or reduce expense items allocable to grants as direct or indirect costs. In its response to recommendations in prior OAS audit reports issued in 1981 and 1987, PRTD agreed to establish adequate procedures to provide immediate credits to the Federal Government upon the cancellation of expired checks.

#### PRTD Records

PRTD's central accounting records do not provide an adequate means of determining the amount of canceled uncashed checks by fiscal year, agency and account. This information by program is needed since the percentage or amount of financial participation varies from program to program. The listings of canceled uncashed checks (CBM-046) distributed to the State agencies are developed from the records of issued checks rather than from the central accounting office records. Although the central accounting records include two separate accounts payable; one for canceled uncashed checks issued from Federal accounts and the other for uncashed checks issued from State accounts, we have found a commingling of Federal and State funds in both accounts.

All funds categorized by PRTD as "State funds" i.e., those checks that have remained in the uncashed checks account payable for checks issued from State accounts for a maximum of two years and not claimed by the recipient are subject to transfer to the Commonwealth General Fund. Prior to this

transfer, the listings of uncashed checks are published at local PRTD collection offices throughout the island to give payees an opportunity to request replacement checks. For the uncashed checks not claimed, the funds are transferred to the Commonwealth General Fund. Since these include uncashed checks issued from accounts with State funds matched with Federal funds, we determined that Federal funds are being transferred to the Commonwealth General Fund.

We had requested listings of canceled uncashed check by fiscal year, agency and account from PRTD for the period from July 1, 1986 to June 30, 1993. However, our review of the listings we received showed they were unreliable and inaccurate and could not be reconciled with the Accounts Payable for canceled uncashed checks. After several meetings with PRTD officials from various areas (Accounting, Treasury, Electronic Systems) and extensive discussions, we concluded that the information was not available at PRTD. PRTD had erased the electronic tapes containing the listings of canceled uncashed checks after they were furnished to the applicable State agencies by reusing the tapes.

Due to PRTD's accounting records limitation and the erasure of the tapes containing the listings of the canceled uncashed checks, we were unable to determine the exact amount of uncashed checks processed by PRTD for the period July 1, 1986 to June 30, 1993. To estimate the amount of uncashed checks processed by PRTD, we added the funds transferred to the Commonwealth General Fund and the accounts payable balances as of June 30, 1993. The PRTD had transferred \$28,513,093 related to uncashed canceled checks which had been issued in State FYs 1987 and 1988 (funds categorized by PRTD as "State funds"). As of June 30, 1993, PRTD records showed a balance of \$26,728,085 ("State" \$18,580,725, "Federal" \$8,147,360). Based on these facts, we estimate that PRTD had processed at least \$55.2 million of uncashed checks from July 1, 1986 through June 1993.

#### Responsibilities of State Agencies

PRTD is responsible for controlling and accounting for State and Federal funds granted to the State agencies. However, the State agencies are responsible for determining the amount of the credits due to the Federal programs and for crediting the Federal programs, usually through their expenditure reports. The State agencies establish the amount of the credits by identifying each check on the listings of canceled uncashed checks they receive from PRTD with the Federal or State program to which it pertains. Depending on the program, Federal participation can range from zero to 100 percent. Our visits to five State agencies revealed they were not analyzing the uncashed check listings they received



from PRTD. Moreover, with the exception of the Department of Social Services which had credited the Federal programs for the period July 1, 1986 to June 30, 1987, the State agencies had not credited the Federal programs for the seven year period from July 1, 1986 through June 30, 1993. In addition, the State agencies were unaware of the existence of the listings nor did they know what should be done with them. At four of the five agencies, most or all the listings of canceled uncashed checks could not be located.

#### Proposal for Estimating Credits Due Federal Programs

The exact amount of the Federal share of the canceled uncashed checks cannot be determined until the State agencies analyze the check listings received from PRTD on a check-by-check basis. Based upon past experience, it will require a tremendous amount of effort and time by the State agencies to establish the amount of credits due the Federal programs for a seven year period on the needed check-by-check basis. Moreover, the above cited PRTD and State agency inadequacies raise questions as to whether the amount of the credits can be established and whether the results will be valid. In light of the foregoing, we are proposing an alternate procedure, namely, that PRTD develop a reasonable method for estimating the amount of the credits for canceled uncashed checks due the Federal programs for the seven fiscal years, July 1, 1986 through June 30, 1993. After approval by DAR, the resulting amount would be reimbursed to the Federal Government in full settlement of the seven year period. DAR has agreed with this proposal. In a meeting held March 10, 1994, DAR requested PRTD to develop such a method for DAR's consideration. Although PRTD officials present agreed with this approach, they indicated it would have to be discussed within PRTD and with the affected State agencies.

#### Cash Management Improvement Act

PRTD stated that with the Commonwealth's implementation of the Cash Management Improvement Act (CMIA) requirements, the problems with expired uncashed checks will be solved. According to PRTD, the new funding technique will be zero balance accounting. With this technique, funds will not be transferred by the Federal awarding agency to the State agency until the check is cashed. The implementation of the CMIA by the Commonwealth began on July 1, 1993.

We performed a limited survey of the CMIA implementation in the Commonwealth to address PRTD's contention. We found that the Commonwealth entered into an agreement with the U.S. Department of the Treasury for the implementation of the CMIA which covered the period from July 1, 1993 to June 30, 1994 (State FY 1994). The agreement covered eight State agencies

and corporations responsible for 15 major Federal programs (programs with awards of \$7 million or more). The agreement provides several funding techniques, among them the zero balance accounting.

We noted that State agencies selected zero balance accounting for most of the components (i.e., payments to beneficiaries and administrative costs) within the Federal programs. However, there were some components, (i.e., indirect costs), in which other funding techniques such as monetary draws were selected. We were advised by PRTD that a new agreement will be entered into with the U. S. Department of the Treasury beginning July 1, 1994. The new agreement would include all Federal programs listed in the Catalog of Federal Domestic Assistance. We were also advised that non-major Federal programs would be using some sort of cash advance method.

Based on our limited survey of the Commonwealth implementation of the CMIA, it is our opinion that the uncashed checks problem may be alleviated, however, it will not be completely resolved as various funding techniques in addition to zero balance accounting will be used.

#### Management and Operation of the Canceled Uncashed Check Process

Our review revealed that deficiencies in the management and operation of the canceled uncashed check process by both PRTD and the State agencies have contributed to the failure of the Federal programs to receive credit for their share of such checks. PRTD has not distributed the listings of canceled uncashed checks to the State agencies timely, nor were they complete as vendors canceled uncashed checks were not included. Omission of the vendors checks is significant since, as an example, for FY 1992 the year for which we obtained such information, vendor canceled uncashed checks represented 28 percent of the total canceled uncashed checks for that year. Moreover, PRTD has not provided the State agencies with clear instructions for the analysis of the uncashed checks and the processing of credits to the Federal programs nor has it monitored State agency performance. The State agencies are not controlling the receipt of the check listings, analyzing those they receive and crediting the Federal programs. These deficiencies have existed for extended periods. In prior audits covering periods beginning with 1979, we have reported these inadequacies to PRTD and two State agencies, the Department of Social Services and the Department of Health. Management officials in these three departments have agreed with our recommendations for improvement and the need to take corrective actions. Despite these agreements, the deficiencies remain as described below.

## Payroll Canceled Uncashed Checks

PRTD was distributing the payroll canceled checks listings to the State agencies in batches of several months, in one instance up to 26 months of data, years after the checks had become stale. The PRTD attributed these delays in the distribution of the reports to staff limitations and other work priorities. We found that a short-term measure to improve the timeliness for delivering these reports is to have the agencies pick them up at the PRTD's Electronic Systems Bureau. A more permanent and effective way would be to have the information available through the agencies access to the PRTD's computer system.

In our audit report CIN: A-02-86-60601 dated December 3, 1987 for the period of July 1, 1979 through June 30, 1986 we recommended that PRTD:

"Continue to produce and distribute on a timely basis to Commonwealth agencies the monthly computer printout report of expired checks... 'List of Expired Checks Classified by Agency, Fund, Fiscal Year and Account Number'. This report, if it is complete and correct, will permit Commonwealth agencies to immediately give effect to credits due Federal programs from expired checks canceled."

Internally, the PRTD Electronic Systems Bureau prepares the overdue checks listings (CBM-046) on a monthly basis. To complete this report, all pertinent closing entries must be processed before the final version is produced and sent to the PRTD's Treasury Bureau. The issuance of the listings to the Treasury Bureau normally takes over 30 working days after the closing of an accounting period<sup>1</sup> but are consistently submitted at monthly intervals.

Once the listings are received at the Treasury Bureau, they are accumulated and retained until an officer is available to prepare the transmittal sheets and contact the State agency messengers (when applicable), or to send them by regular mail. The Bureau officials claim that the lack of staff as well as the multiple priorities for which they are responsible do not allow the listings to be distributed monthly or more timely than has been done.

We analyzed the PRTD CBM-046 report distribution by comparing the transmittal sheets from the Electronic Systems Bureau to the Treasury Bureau, and from the latter to the State

---

<sup>1</sup> The PRTD divides the State fiscal year into 13 periods.

agencies. We found that for the months where the Electronic Systems Bureau transmittals were kept by the Treasury Bureau, the reports were received consistently at monthly intervals. However, the reports were not distributed to the State agencies with the same regularity. We reviewed the distribution of the CBM-046 reports to the State agencies for which HHS has audit cognizance including DSS, and PRDH. We found that the listings were distributed in batches of many months, ranging from 10 to 26 months. As a result, in some instances, the information on expired checks was not available to the State agency until over three years later.

In an informal exit conference held on February 28, 1994 the PRTD's Assistant Secretary decided to take immediate corrective action regarding the report distribution weakness. She gave instructions to her staff to establish procedures whereby the State agencies' runners can pick up the reports at the Electronic Systems Bureau.

#### Vendor Canceled Uncashed Checks

Our review disclosed that PRTD was not distributing the vendor uncashed canceled checks listings to the agencies (the listings only included uncashed payroll checks). The only time they were distributed was in 1988 when the Commonwealth Integrated Financial and Accounting System (CIFAS) began to operate. The CIFAS is an accounting system for vendors' that is limited to accounting for disbursements to vendors. A separate payroll system processes disbursements for the government employee payroll.

The PRTD officials alleged that there should be very few uncashed checks to vendors. To verify PRTD's contention we requested from the Treasury staff the amount of canceled uncashed checks to vendors for the most recent period. The Treasury Bureau provided the information for FY 1992. This information showed the amount of vendor canceled uncashed checks was substantial. They totalled \$1,326,337 or about 28 percent of the total of the canceled uncashed checks for FY 1992 which amounted to \$4,795,171.

#### Coordination with State Agencies

The PRTD has not provided the State agencies with clear instructions for the analysis of the listings of canceled uncashed checks (the CBM-046 reports) it submits to them nor has it monitored the action taken by the State agencies relative to these checks. We visited five Commonwealth agencies and found that most could not account for the CBM-046 reports, the finance directors were unaware of the existence of the reports, and persons receiving the reports did not know what should be done with them. Two of the

agencies contacted could not provide any information about the uncashed checks reports. The schedule below illustrates the results related to the three remaining agencies after action taken in response to our inquiries.

	<u>Reports Located</u>		<u>Amount</u>	<u>Analysis</u>
	<u>from</u>	<u>to</u>		<u>Made</u> <u>Yes / No</u>
PRDE <sup>2</sup>		<sup>3</sup>	\$3,321,611	No
DSS	8/86	4/93	2,592,289	In process
PRDH <sup>4</sup>	5/93	9/93	7,099	No

The State agencies had not established controls to assure the receipt of the CBM-046 reports on a timely basis, nor had they promptly analyzed the reports, identified the credits due the Federal programs and processed the needed financial adjustments. In prior audit reports to both the Departments of Social Services and of Health, we have recommended, and Departmental officials had agreed, that such action be taken.

In an informal exit conference held on February 28, 1994, PRTD agreed that coordination with the State agencies needed improvement and indicated that an instructional letter will be prepared to address this issue.

#### Causes for the Large Number of Canceled Uncashed Checks

A key question arises as to why so many canceled uncashed checks are generated. Resolution of this question was not included in the scope of our audit. However, we believe it is the responsibility of the management of both PRTD and the State agencies to determine the answers. The exact number of such checks was not readily available. However, their total estimated dollar value (\$55.2 million during a seven year period), particularly since a large portion were relatively small payroll checks, indicates the number of checks is large. We found no indication that either PRTD or the State agencies had made studies to answer the question. Identification of the causes of the large volume of such checks should lead to procedural and system improvements that

<sup>2</sup> Puerto Rico Department of Education. The person that received the reports did not know what to do with them.

<sup>3</sup> From 1/88 to 10/93 there were only 17 reports available at this agency

<sup>4</sup> Puerto Rico Department of Health. The person that received the reports did not know what to do with them.

would decrease their number. As a means of ascertaining whether such a study would be worthwhile, we made a limited analysis. Since the majority of the uncashed checks are payroll checks, we selected a limited judgmental sample of 14 of these checks. The source of the data was the CBM-046 report<sup>5</sup> available at the DSS Federal Reports Office.

The State agency has to prepare and submit to PRTD a cancellation form SC-853 to void a payroll check. The form is processed by PRTD and the corresponding amount credited to the agency's account. We reviewed 11 forms SC-853 filed at DSS for the uncashed payroll checks selected. For three of the checks, DSS did not have a copy of the form SC-853; however, we did review the DSS payroll log book which had the check number, date issued, amount, employee's name, and a certification of the resignation date by the supervisor.

Our analysis revealed that all 14 uncashed checks were voided due to the resignations of the employees. However, we noted that the checks were issued after the resignation effective dates. Additionally, there were three employees with more than one payroll check issued after their resignation effective date. The eleven SC-853 forms prepared by the agency and submitted to PRTD for annulment of the check were dated from five to seven months after the resignation effective dates of the employees. From our limited test, it was evident that serious problems exist in the processing of necessary payroll forms and data that requires the immediate attention of both the State agencies and PRTD to correct. Unless the Commonwealth takes aggressive steps to determine the cause(s) for the large numbers of canceled uncashed checks, this condition which has existed for many years, will continue to exist.

Recommendations:

We recommend that PRTD

1. Develop and submit to DAR for approval a reasonable method for estimating the amount of the Federal share of canceled, uncashed checks totalling \$55.2 million due the Federal programs for the seven Fiscal Years July 1, 1986 through June 30, 1993.

---

<sup>5</sup> The PRTD Treasury Bureau was not able to provide copies of the CBM 046 reports distributed to the State agencies. The report kept by this division was the CBM 047, a general listing not segregated by agencies.

2. With respect to departments, agencies, programs, components within programs which are not subject to a method of deferring the transfer of Federal funds until the checks are cashed or for any period which they are not so subjected:
  - a. Keep electronic media records of uncashed checks monthly reports.
  - b. Continue with its plans to have the uncashed checks reports distributed directly from the Electronic Systems Bureau to the State agencies via the runner system. The data should be transmitted in hard copy, and in computer diskette in a software that can be used by the State agency. We consider this measure a short-term corrective action.
  - c. As a long-term corrective measure, modify the CIFAS system to allow the agencies to have computer access to the uncashed expired checks reports. The State agencies should also be allowed to request adjustments or claims through the system. These transactions can then be authorized and automatically posted by PRTD personnel.
  - d. Prepare computer listings of canceled uncashed checks including both payroll and vendor (by agency and account) and distribute them to the State agencies on a timely basis.
  - e. Continue with its plans to issue an instructional letter to instruct the State agencies on the processing of the uncashed checks reports. The letter should require the State agencies to assign responsibility for the receipt and analysis of the reports, and the timely processing of the credits due Federal Government. Furthermore, the letter should require the State agencies to report to PRTD, within a reasonable time frame, the actions taken with the CBM-046 reports.
  - f. Establish procedures to monitor the State agencies' compliance with its instructions on the processing of the uncashed checks reports.
3. Review its operations and also direct the State agencies to review their operations in order to identify the causes for their canceled uncashed checks and to recommend and/or implement procedural and/or systems improvements to reduce the volume of such checks.

1. PRTD Comments

"Since the data is now available, we consider that it is unnecessary to estimate the amount of the credits for CUC (canceled uncashed checks) due to the Federal programs. We are sending to each of the agencies with Federal programs their list of CUC for their analysis, so that they credit the corresponding federal programs."

OIG Response

PRTD believes that with the cooperation of the GDB it has been able to reconstruct the complete details of the CUC for the period July 1, 1986 through June 30, 1993. However, we have found that this data which PRTD is now making available for our review is incomplete as it does not include a substantial number (at least 43 percent) of the CUCs for that period. Consequently, this data cannot be used to fully determine the credits due the Federal programs for the period under review.

The CUC listings which PRTD is now making available for our review only total \$31,329,217.52. This is \$23.9 million, or 43 percent, less than the minimum of \$55.2 million of CUC that we estimate that PRTD had processed during the period July 1, 1986 through June 30, 1993. Based upon our cursory review of these CUC listings as well as our discussions with PRTD representatives, the following inadequacies contributed to this substantial understatement of the CUCs processed by PRTD during this period:

- The listings only included payroll canceled uncashed checks. Neither vendor canceled checks or those issued by the State agencies' Special Disbursement Officers were included.
- The source of the GDB data relating to canceled uncashed checks was the information provided by PRTD to GDB and used to prepare the listings of such checks that had remained in PRTD's accounts payable for two years. These are the listings that are publicized at local PRTD collection offices to give payees an opportunity to request replacement checks. Consequently, the canceled uncashed checks which had been in PRTD's accounts payable for less than two years were not included in the GDB data.
- Listings were not prepared for CUCs processed in FY 1990 as neither the GDB nor PRTD had the CUC data for the period January to June 1990.



- The listings prepared from the GDB data were incomplete as they did not contain the canceled uncashed checks for several periods. For example, for one agency, such checks were listed for January to June 1988 but not for June to December 1988.

The past has demonstrated that the process of exactly determining the credits due the Federal programs on the needed canceled check by canceled check basis is extremely time consuming. For example, our experience with two State agencies, the Department of Social Services and the Department of Health showed that it took about five years to settle the CUC amounts for a seven year period. Consequently, even if the CUC listings prepared with GDB cooperation had been valid, which they are not, we would still have recommended that the credits due the Federal programs for the seven year period initially be estimated on a reasonable basis. This estimate would be the basis for a tentative settlement and immediate credits to the Federal programs. This would expedite the credits to the Federal programs which to date have been excessively delayed. The tentative settlement and credits could be adjusted as the Puerto Rico agencies with Federal programs analyze the CUC listings and determine the exact amount of credits due the Federal programs.

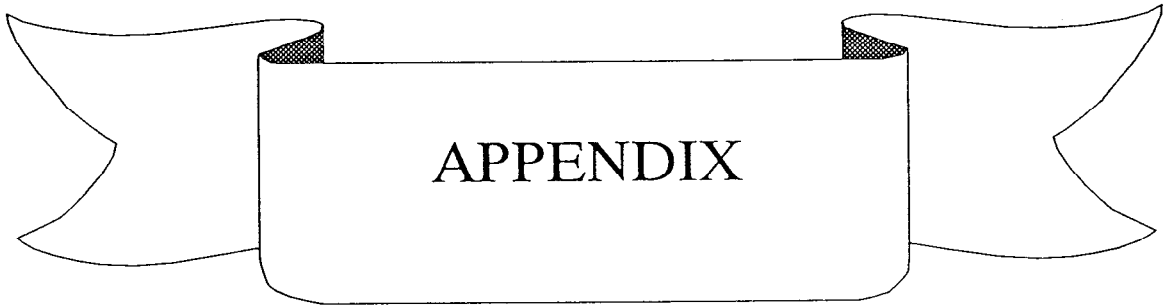
## 2. PRTD Comments

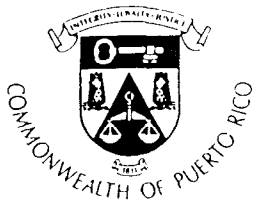
"In November 1993, we began a project toward the modernization of the Payroll System. We plan to use the CIFAS Data Transmission Network for on-line data entry and files updating."

"We have already obtained information on what the agencies' problems are at present with regards to CUC. By making the necessary interphase with CIFAS we shall be able to accelerate the process."

## OIG Response

We suggest that PRTD monitor this project closely to ensure that the processing of canceled uncashed checks is improved, their volume reduced and that the agencies' problems are resolved.





# SECRETARY OF THE TREASURY

APPENDIX A  
Page 1 of 4

June 30, 1994

Mr. John Tournour  
Regional Inspector General  
for Audit Services  
Department of Health and Human Services  
New York, New York 10278

Audit Control No. 02940200

Dear Mr. Tournour:

We have thoroughly studied the findings and recommendations of the aforementioned Audit Report "Review of the Puerto Rico Treasury Department Escheated Warrants for the period July 1, 1986 through June 30, 1993". The report mentioned, among others, that PRTD erased the data on its tapes of canceled uncashed checks (CUC) after the listings were provided to the applicable state agencies. Therefore, it was impossible for the auditors to determine the exact amount of the CUC processed for said period.

As we informed you in our letter dated June 8, 1994, we obtained from the Government Development Bank for Puerto Rico (GDB) the data concerning the canceled checks for that period. The data is now available for your audit staff to review.

This Department has adopted the following position with respect to each of your recommendations:

1. "Develop and submit to DAR for approval a reasonable method for estimating the amount of the credits for canceled uncashed checks due the Federal programs for the seven fiscal years July 1, 1986 through June 30, 1993".

Since the data is now available, we consider that it is unnecessary to estimate the amount of the credits for CUC due to the Federal programs. We are sending to each of the agencies with Federal programs their list of CUC for their analysis, so that they credit the corresponding federal programs.

This action is taken based on Article 87 of the Puerto Rico Civil Code, as amended (3 L.P.R.A. 251), which states in its section (c) that "In cases of checks issued against federal funds, the government agencies, upon request of the Federal Government, may, after the check has lapsed and has not been claimed, make the

credit corresponding to the federal program, or return the funds to the Federal Government, as provided in the regulations issued by the Secretary of the Treasury to such effects."

2. "With respect to the departments, agencies, programs, components within programs which are not subject to a method of deferring the transfer of Federal funds until the checks are cashed or for any period which they are not so subjected:"

a. "Keep electronic media records of uncashed checks monthly reports."

Programs (CBM050) have been modified so that monthly reports of CUC will be included in all annual historic files. These files will have a 10 year retention period. With data received from the GDB we shall proceed to construct the files from July, 1985.

b. "Continue with its plans to have the uncashed checks reports distributed directly from the Electronic Systems Bureau to the State agencies via the runner system. The data should be transmitted in hard copy, and in computer diskette in a software that can be used by the State agency. We consider this measure a short-term corrective action."

Since April 1994, the Electronic Data Processing Bureau (EDP) began sending the payroll and vendor CUC list directly to the agencies.

With respect to the transmittal of data in a diskette, we are in the process of conducting tests with the Department of Social Services. Depending on the results of these tests, we shall expand the process to other agencies, as they acquire the appropriate microcomputer.

c. "As a long-term corrective measure, modify the CIFAS system to allow the agencies to have computer access to the uncashed expired checks reports. The State agencies should also be allowed to request adjustments or claims through the system. These transactions can then be authorized and automatically posted by PRTD personnel."

At present, 43 agencies have direct access to Commonwealth Integrated Financial and Accounting System (CIFAS) with regard to vendor's expired checks. So as to speed up the accounting process, 36 agencies are already entering the data and this will help to reduce the number of CUC.

d. "Prepare computer listings of canceled uncashed checks including both



payroll and vendor (by agency and account) and distribute them to the State agencies on a timely basis."

Since April, 1994, we are producing a payroll and vendor uncashed checks report, by accounting period. This report contains the agency, account number, and all necessary items for appropriate identification and is being distributed to the corresponding agencies.

- e. "Continue with its plans to issue an instructional letter to instruct the State agencies on the processing of the uncashed checks reports. The letter should require the State agencies to assign responsibility for the receipt and analysis of the reports, and the timely processing of the credits due Federal Government. Furthermore, the letter should require the State agencies to report to PRTD, within a reasonable time frame, the actions taken with the CBM-046 reports."

In accordance with our government's present public policy, we are revising all existing fiscal regulations and procedures so as to simplify and make them more effective. At the same time, we will maintain all the necessary controls for the disbursement of State and Federal funds. This revision will include all regulations and procedures related to the CUC.

The Bureau of Fiscal Systems of this Department is already in this process, which will include existing regulations under the Cash Management Improvement Act (CMIA). As to the monthly CBM-046 report, -the CUC report-, during the month of July we shall issue an instructional letter to all agencies establishing guidelines regarding this matter.

- f. "Establish procedures to monitor the States agencies' compliance with its instructions on the processing of the uncashed checks reports."

The Division of Technical Advice and Systems on State Administration of Federal Funds, Bureau of Fiscal Systems, has as one of its functions the monitoring of the use of Federal funds by State agencies. Commencing fiscal year 1994-1995, it will begin to monitor compliance with the instructions to be issued on CUC.

3. "Review its operations and also direct the State agencies to review their operations in order to identify the cause for their canceled uncashed checks and to recommend and/or implement procedural and/or systems improvements to reduce the volume of such checks."

In November 1993, we began a project toward the modernization of the Payroll



Mr. John Tournour  
June 30, 1994  
Page 4

APPENDIX A  
Page 4 of 4

System. We plan to use the CIFAS Data Transmission Network for on-line data entry and files updating.

We have already obtained information on what the agencies' problems are at present with regards to CUC. By making the necessary interphase with CIFAS we shall be able to accelerate the process.

On the other hand, the CMIA should help to reduce the volume of CUC since no federal funds will be paid out until the check clears. This occurs when the program is under the Zero Balance Technique of requesting funds. Most State agencies selected this technique.

We hope to have addressed all the concerns raised in your report and we are at your disposition to answer any questions or clarify any point regarding this matter.

Remember, at Treasury we are here to serve you.

Cordially,

  
Manuel Díaz Saldaña

