
**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, 2005**

March 2008

A-77-08-00012

**MANAGEMENT
ADVISORY REPORT**



Mission

By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA's programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, 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

We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.



SOCIAL SECURITY

MEMORANDUM

Date: MAR 28 2008

Refer To:

To: Candace Skurnik
Director
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the Commonwealth of Puerto Rico, Department of the Family, for the Fiscal Year Ended June 30, 2005 (A-77-08-00012)

This report presents the Social Security Administration's (SSA) portion of the single audit of the Commonwealth of Puerto Rico, Department of the Family (PRDF), for the fiscal year (FY) ended June 30, 2005. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

Torres Llompert, Sanchez Ruiz, LLP performed the audit. Results of the desk review conducted by the United States Department of Agriculture (USDA) have not been received. We will notify you when the results are received if USDA 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 Torres Llompert, Sanchez Ruiz, LLP, and the reviews performed by USDA. We conducted our review in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

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. The PRDF is the Puerto Rico DDS' parent agency.

The single audit reported:

1. Documentation was missing from employees' personnel files and controls were inadequate to ensure that employees whose salaries were charged to Federal funds performed duties related to the program charged (Attachment A, Pages 1 through 5). The corrective plan indicates that a taskforce was organized to review all personnel files and ensure documentation was complete (Attachment A, Page 6).
2. The PRDF did not adhere to the requirements for developing and maintaining clearance patterns as specified in the Treasury-State Agreement. Specifically, for the SSA programs, request for reimbursement was not made for 10 adjustments totaling \$1,553,196; and information related to the request for funds was not available for the auditors to review for eight transactions totaling \$1,205,214 (Attachment A, Pages 7 through 13). The corrective action plan indicates a reminder was issued to maintain adequate documentation to support the requests for reimbursement and improve internal controls over filing and safeguarding documents for requests for reimbursement (Attachment A, Pages 14 and 15).
3. Expenditures totaling \$408,296 were charged to the SSA program for obligations that were incurred after the end of the period of availability (Attachment A, Pages 16 through 20). The corrective action plan indicates that a new record keeping system was implemented which will help improve accounting for obligations (Attachment A, Pages 21 through 23).
4. Unliquidated obligations reported on the State Agency Report of Obligations for SSA Disability Programs (SSA-4513) did not agree with the PRDF's accounting records. Specifically, the SSA-4513 was understated by \$1,334,861 (Attachment A, Pages 24 and 25). A corrective action was not included in the report (Attachment A, Page 26).

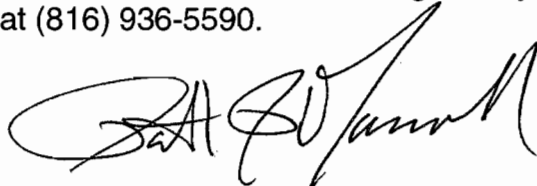
The Office of the Inspector General conducted an audit of Administrative Costs Claimed by the Commonwealth of Puerto Rico Disability Determination Program that covered the period of this single audit.¹ The administrative cost audit reviewed the areas where the single audit reported findings – personnel, cash management, expenditures, and unliquidated obligations – and made recommendations as appropriate. Therefore, we will not make recommendations on these single audit findings.

The single audit also disclosed the following findings that may impact the DDS' operations although they were not specifically identified to SSA. I am bringing these matters to your attention as they represent potentially serious service delivery and financial control problems for the Agency.

¹ Administrative Costs Claimed by the Commonwealth of Puerto Rico Disability Determination Program (A-06-06-16117) March 26, 2007.

- The lack of an overall control and record keeping system, including record retention and filing of required documents, resulted in untimely reports and inaccurate accounting records (Attachment B, Pages 1 through 5).
- PFDF did not (a) have controls and procedures in place to document allowability of expenditures, including administrative costs, (b) did not have the proper reviews and authorizations for processing these expenditures, and (c) did not separate administrative expenses (2) according to the proper program (Attachment B, Pages 6 through 13).
- Internal controls over equipment were inadequate and property records were not provided (Attachment B, Pages 14 through 17).

Please send copies of the final Audit Clearance Document to Shannon Agee. If you have any questions contact Shannon Agee at (816) 936-5590.

A handwritten signature in black ink, appearing to read "SA Shannon Agee", is written over the printed name of Patrick P. O'Carroll, Jr.

Patrick P. O'Carroll, Jr.

Attachment

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINDING NO. 05-06 PERSONNEL FILES AND PAYROLL TEST

Federal programs

CFDA 10.566	Nutrition Assistance Program for Puerto Rico
CFDA 93.563	Child Support Enforcement
CFDA 93.575	Child Care and Development Block Grant
CFDA 93.600	Head Start
CFDA 93.645	Child Welfare Services – State Grant
CFDA 93.658	Foster Care – Title IV-E
CFDA 93.667	Social Services Block Grant
CFDA 96.001	Social Security – Disability Insurance

Category

Compliance / Internal control

Compliance requirements

Activities allowed or unallowed
Allowable costs / cost principles

Condition found

During the fiscal year ended June 30, 2005, the PRDF had approximately 6,460 employees compensated with state funds and 3,450 compensated with federal funds. Total payroll and payroll related expenditures paid during the year ended June 30, 2005, with state and federal funds amounted to \$201,504,315 and \$104,515,271, respectively (representing a total annual payroll of \$306,019,586). To test PRDF's compliance with the provisions of Attachment B, Section 11 of the OMB Circular A-87 and to determine if charges to federal awards for payroll and payroll related expenditures were allowable, we selected for test a random sample of 80 employees. The sample was composed of 40 employees compensated with state funds and 40 with federal funds, for an estimated annual payroll of \$861,000 and \$875,000, respectively. For each employee selected we performed the following tests:

- a) A Personnel file test to determine if the employee's employment conformed to state employment laws and regulations meeting federal merit system; and

**COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINDING NO. 05-06 PERSONNEL FILES AND PAYROLL TEST (CONTINUED)

Condition found (continued)

- b) A Payroll test to determine if: a) the payroll and payroll related charges were supported by personnel activity reports, and time and attendance records; and b) the employee's total wage or salary was reasonable and consistent with wages or salaries paid for similar work in other activities of the PRDF.

The above procedures were also designed to test compensation for personnel services. Our examination revealed the following conditions:

Personnel files

The following documentation was missing from the employees' file:

Documents Missing	Total Files Examined	Document Not Found	Percentage
Health certificate (DEFAM-12)	80	3	3.75%
Birth certificate	80	3	3.75%
Criminal record certificate	80	8	10.00%
Verification of academic preparation	80	1	1.25%
Copy of social security card	80	9	11.25%
Copy of ID card with photo	80	14	17.50%
Destitution registry (ORHELA)	80	1	1.25%
Corruption registry	80	12	15.00%
Employment eligibility (Form 1-9)	80	12	15.00%
Drug free test	80	16	20.00%
Child support certification (ASM-5)	80	8	10.00%
Certification of tax return (Form 330-05)	80	5	6.25%
PRTD debt certificate	80	11	13.75%
ASUME debt certificate	80	5	6.25%
CRIM debt certificate	80	10	12.50%
Withholding Form (499 R-4)	80	4	5.00%
Certification of double compensation	80	5	6.25%
Professional license	80	1	1.25%
Certification of receipts of documents	80	1	1.25%
Certification of requirements verification (DEFAM-44)	80	7	8.75%
Employment application and/or resume	80	10	12.50%

**COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINDING NO. 05-06 PERSONNEL FILES AND PAYROLL TEST (CONTINUED)

Condition found (continued)

Personnel files (continued)

Additionally, the Head Start program (CFDA 93.600) has other requirements. The following documentation was missing from the sample of one Head Start employees' file:

- a) Documentation of interview with the applicant
- b) Verification of personnel and employees references
- c) Negative Declaration listing legal cases related to child abuse and neglected
- d) Evidence of probation period for new employee
- e) Evidence of staff and consultants' knowledge, skills and experience, as need to perform their assigned functions
- f) Documentation of the initial health examination
- g) Evidence of training and development

Furthermore, the files of the employees providing services to the Child Care and Development Block Grant must contain evidence of knowledge of the American Disability Act. However, none of the nine (9) employee files selected for testing contained such evidence.

Above conditions are indicative that established procedures are not being followed and consequently, documents required for recruiting purposes have not been always obtained or properly filed.

Payroll

The PRDF does not have adequate controls to ensure that employees whose salaries are reported as charged to federal and/or state funds are working and performing duties directly related to the fund from which they are being paid. In testing the allowability of payroll costs, we found that salaries paid to some employees are funded or charged to federal programs that are not benefiting from the duties performed by those employees. Our tests revealed that in one (1) of the employees' files tested (1%), an employee of the Secretariat was compensated with Child Care and Development Block Grant (CFDA 95.575) funds; however, according to the Change Form, the employee should have been compensated with state funds. The questioned costs related to the salary of this employee for said period amounted to \$17,171.

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINDING NO. 05-06 PERSONNEL FILES AND PAYROLL TEST (CONTINUED)

Payroll (continued)

The primary cause of improper salary charges is due to PRDF's failure to monitor payroll transactions.

Criteria

Attachment B, Section 8 (a) (2) of the OMB Circular A-87 establishes that the cost of compensation for personnel services is allowable to the extent that it follows an appointment made in accordance with the governmental unit's laws and rules and meets merit system or other requirements required by federal law, where applicable.

45 CFR Section 92.20 (b) (3) establishes that 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.

45 CFR Section 92.20 (b) (6) establishes that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc..

45 CFR Sections 92.42 (a) (1) and (b) establish that all financial and programmatic records, supporting documents, statistical records, and other records of grantees or sub grantees are required to be maintained by the terms of this part, program regulations or the grant agreement, or otherwise reasonably considered pertinent to program regulations or the grant agreement. Records must be retained for three years except as otherwise provided,.

Effect

Incomplete files and personnel not meeting state employment laws and regulations and federal merit system could lead to cost disallowances. Lack of controls over the time charges of personnel that are working on federal programs could result in payments to employees who are not working or performing duties directly related to the federal programs from which they are being paid.

**COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINDING NO. 05-06 PERSONNEL FILES AND PAYROLL TEST (CONTINUED)

Questioned costs

\$17,171 CFDA 93.575 Child Care and Development Block Grant

Recommendations

The PRDF shall develop a comprehensive plan to ensure that: a) all the personnel files are on hand and complete; and b) all personnel required reports are prepared and processed immediately.

Adequate payroll procedures would allow the PRDF to: a) ensure that payroll costs paid with federal funds are distributed adequately and accurately; and b) keep track of any changes in the tasks performed by an employee, which shall be processed on a timely basis by the Payroll Division. After implementing these improvements the PRDF shall have a continuous monitoring of this process to ensure that control activities are functioning as intended.

Finding Number, Topic Sentence and Program reference:	Recommendations / Total question costs:	Corrective Action taken:	Assign Date	Due Date for completion of finding	Employee / Department Responsible for Implementation:	Status corrective actions (CAF)			PAC Evaluation From Internal Audit Office (L.A.O.)	Interviews and Tests to be performed by I.A.O.
						Pending	Partial Complete	Completed		
05-06 Personnel Files and Payroll Test Nutrition Assistance Program for Puerto Rico Child Care and Development Block Grant	The PRDF shall develop a comprehensive plan to ensure that: a) all the personnel files are on hand and complete; b) all personnel required reports are prepared and processed immediately. Adequate payroll procedures would allow the PRDF to: a) ensure that payroll costs paid with federal funds are distributed adequately and accurately; and b) keep track of any changes in the tasks performed by an employee, which shall be processed on a timely basis by the Payroll Division. After implementing these improvements the PRDF shall have a continuous monitoring of this process to ensure that control activities are functioning as intended. \$17,171 for Child Care Program	ADSEF Response: The finding does not specify what missing documentation pertains to MAP. Starting immediately, the ADSEF through its Local Offices will review 3,000 personnel files to verify full compliance with all state regulations regarding recruitment and retention. We expect to complete the assessment of two regions by June 1 st 2007, and the rest of the files will be completed by March 2008. It is important to emphasize that most of the findings regarding missing documents were related to recruitment performed by the Central Office of Personnel for the Commonwealth of Puerto Rico (OCAP). It was not until March 1991, that OCAP transferred all personnel files of the PRDF employees to the Human Resources Office of the PRDF. In regard to the missing time sheets of 3 employees files tested, it were apparently misplaced by the Agency and later found and submitted to the external auditors. ACUDEN Response: We do not accept this finding. Personnel from Human Resources indicates that the auditor never discussed the exceptions, and most of them were incorrect because the documents were in separate files or do not apply due to the fact that at the moment the employee began, those documents were not required. However, the Human Resource Office organized a taskforce to review all personnel files and ensure complete documentation in each file.		March 2008	Human Resources Office Carmen M. Torres Human Resources Director	X				
					Elisa Figueroa Human Resource Director			X		

**COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

**FINDING NO. 05-07 CASH MANAGEMENT - PROGRAMS COVERED BY THE
TREASURY - STATE AGREEMENT UNDER THE ZERO
BALANCE ACCOUNTING FUNDING TECHNIQUE**

Federal programs

CFDA 10.566 Nutrition Assistance Program for Puerto Rico
CFDA 93.558 Temporary Assistance for Needy Families
CFDA 93.563 Child Support Enforcement
CFDA 93.569 Community Services Block Grant
CFDA 93.575 Child Care and Development Block Grant
CFDA 93.600 Head Start
CFDA 93.667 Social Services Block Grant

Category

Compliance / Internal control

Compliance requirement

Cash management

Condition found

During the fiscal year ended June 30, 2005, the PRDF requested federal funds covered by the Treasury-State Agreement under the Zero Balance Accounting funding technique for the following programs:

<u>CFDA NO.</u>	<u>Program</u>	<u>Items tested</u>	<u>Sample dollar amount</u>
10.566	Nutrition Assistance Program for Puerto Rico	23	\$ 14,055,275
93.558	Temporary Assistance for Needy Families	25	3,233,589
93.563	Child Support Enforcement	22	3,788,550
93.569	Community Services Block Grant	22	20,280,870
93.575	Child Care and Development Block Grant	20	6,976,955
93.600	Head Start	24	22,510,734
93.645	Child Welfare Services - State Grant	14	28,222
93.667	Social Services Block Grant	23	240,363
96.001	Social Security - Disability Insurance	25	1,697,104
		<u>198</u>	<u>\$72,811,662</u>

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

**FINDING NO. 05-07 CASH MANAGEMENT - PROGRAMS COVERED BY THE
TREASURY - STATE AGREEMENT UNDER THE ZERO
BALANCE ACCOUNTING FUNDING TECHNIQUE
(CONTINUED)**

Condition found (continued)

For each of the 198 transactions selected for testing in the Disbursement Test (see Finding No. 05-04), we reviewed the documentation supporting the clearance pattern and verified whether it conformed to the requirements for developing and maintaining clearance patterns as specified in the Treasury-State Agreement. After performing such procedures, we noted the following:

- a) There were 27 transactions (14%) in the amount of \$21,323,187 which represent adjusting journal entries and, accordingly, there was no check clearance and no petition of funds (for claim of reimbursement), as follows:

Voucher Number	Voucher Date	Amount
Nutrition Assistance Program for Puerto Rico (CFDA No. 10.566)		
122050001	07/13/04	\$ 645,541
122050038	09/14/04	2,743,949
122050163	02/18/05	985,175
122050235	06/07/05	1,352,517
127875072	06/21/05	1,171,194
Child Care and Development Block Grant (CFDA No. 93.575)		
122050009	07/15/04	477,510
241507053	09/30/04	371,573
122050208	04/14/05	145,250
241507189	04/29/05	3,082,691
241507205	05/31/05	605,609
241507220	06/30/05	1,246,539
Head Start (CFDA No. 93.600)		
241072012	10/31/04	418
2410506085	02/23/05	6,917,545
Child Welfare Services - State Grant (CFDA No. 93.645)		
1535052235	08/09/04	(10)
123089008	08/31/04	6,897
123089008	08/31/04	9,356
Social Services Block Grant (CFDA No. 93.667)		
123069007	08/31/04	8,237

**COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

**FINDING NO. 05-07 CASH MANAGEMENT - PROGRAMS COVERED BY THE
TREASURY - STATE AGREEMENT UNDER THE ZERO
BALANCE ACCOUNTING FUNDING TECHNIQUE
(CONTINUED)**

Condition found (continued)

Social Security	Disability Insurance (CFDA No. 96-001)	
122050031	09/30/04	\$ 72,990
122050022	08/13/04	99,869
122050061	10/13/04	238,602
122050067	11/08/04	250,220
122050068	11/08/04	230,045
122050081	11/12/04	114,669
122050085	10/30/04	246,690
05005840	06/13/05	713
122050262	06/30/05	124,110
122050145	02/08/05	175,288

\$21,323,187

- b) There were eight (8) transactions (4%) in the amount of \$1,205,214 for which the information related to the petition of funds was not available for examination; accordingly, we were unable to determine whether the PRDF: i) followed the procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury, or pass-through entity, and their disbursement; and ii) has complied with the terms and conditions of the Treasury-State Agreement prescribed by the U.S Treasury. The detail of transactions follows:

Voucher Number	Voucher Date	Check No.	Check Date	Amount
Nutrition Assistance Program for Puerto Rico (CFDA No. 10-566)				
05006738	06/16/05	01547710	06/21/05	\$ 388,911
Temporary Assistance for Needy Families (CFDA No. 93-558)				
05AP5149	08/11/04	1329798	8/13/04	156,756
05001340	09/22/04	1359842	@	30,000
241507071	10/29/04	@	@	398,506
05004609	03/16/05	@	@	53,425
05001843	05/18/05	1524112	05/20/05	165,500
Child Support Enforcement (CFDA No. 93-560)				
05AP0021	07/16/04	01316365	7/28/04	11,625
05002463	11/29/04	0148663	12/6/04	491

\$1,205,214

@ - Information not available.

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

**FINDING NO. 05-07 CASH MANAGEMENT - PROGRAMS COVERED BY THE
TREASURY - STATE AGREEMENT UNDER THE ZERO
BALANCE ACCOUNTING FUNDING TECHNIQUE
(CONTINUED)**

Condition found (continued)

- c) There were two (2) transactions (1%) in the amount of \$47,850 for which the PRDF was unable to track the check clearance in the GDB banking system. Those transactions were identified by the PRTD. However, no funds requests were made because there was no balance available in the HHS' Payment Management System (PMS) to drawdown funds from the grant awards of the Child Welfare Services - State Grant and the Social Services Block Grant programs.

The lack of availability of funds from those grant awards was caused by the Finance Division of ADFAN, which charged expenditures of subsequent grant awards (mainly payroll and payroll related) to previous grant awards until inclusion by the PRTD of new grant awards into PRDF's chart of accounts. Accordingly, since such expenditures were charged to previous grant awards, the Cash Management Division requested such funds from previous grant awards.

Once the subsequent grant awards number were included by the PRTD into the PRDF's chart of accounts, the Finance Division recorded adjusting journal entries to reclassify the expenditures related to subsequent grant awards to its corresponding account. However, the Finance Department of ADFAN did not inform such reclassification to its Cash Management Division and, accordingly, no adjustment was made through the PMS to reclassify the request of funds from previous grant awards to the subsequent grant awards. The detail of transactions follows:

Voucher Number	Voucher Date	Check No.	Check Date	Amount	Date Cleared
Community Services Block Grant (CFDA No. 93.569)					
05013129	05/26/05	01531167	05/31/05	\$30,000	06/30/05
Social Services Block Grant (CFDA No. 93.667)					
05AP9607	09/03/04	01354602	09/22/04	17,850	09/30/04

\$47,850

- d) There were six (6) transactions (3%) in the amount of \$2,951,361 for which the GDB banking system did not clear the check and, accordingly, no claim for reimbursement has been issued to the Federal Government. The detail of transactions follows:

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINDING NO. 05-07 CASH MANAGEMENT - PROGRAMS COVERED BY THE
TREASURY - STATE AGREEMENT UNDER THE ZERO
BALANCE ACCOUNTING FUNDING TECHNIQUE
(CONTINUED)

Condition found (continued)

Voucher Number	Voucher Date	Amount
Child Care and Development Block Grant (CFDA No. 93.575)		
5010946	01/24/05	\$ 51,820
Head Start (CFDA No. 93.600)		
5009302	08/16/04	525,195
5010698	01/03/05	361,256
5010886	01/20/05	913,904
5011121	02/08/05	229,191
5011145	02/09/05	869,995

\$2,951,361

Criteria

Sections (b) (2), (3) and (6) of 7 CFR 3016.20 and 45 CFR 92.20 establish that grantees and sub grantees 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 sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. Effective control and accountability must be maintained for all grant and sub grant cash, real and personal property, and other assets. Accounting records must be supported by source documentation such as cancelled checks, paid bills, payroll time and attendance records, contract and sub grant award documents, etc.

Sections (a) and (b) of 7 CFR 3016.42 and 45 CFR 92.42 establish that all financial and programmatic records, supporting documents, statistical records, and other records of grantees or sub grantees are required to be maintained by the terms of this part, program regulations or the grant agreement, or otherwise reasonably considered pertinent to program regulations or the grant agreement. Records must be retained for three years except as otherwise provided.

31 CFR Section 205.20 establishes that states must use clearance patterns to project when funds are paid out, given a known dollar amount and a known date of disbursement. A State must ensure that clearance patterns is auditable and accurately represent the flow of Federal funds under the Federal assistance programs to which it is applied.

**COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

**FINDING NO. 05-07 CASH MANAGEMENT OF PROGRAMS COVERED BY
THE TREASURY - STATE AGREEMENT UNDER THE
ZERO BALANCE ACCOUNTING FUNDING TECHNIQUE
(CONTINUED)**

Effect

The continued occurrence of these conditions may result in the following:

- a) Due to the significant amount of federal funds received, the PRDF could be exposed to significant administrative sanctions by the grantor, including the assessment of interest cost on funds that were not disbursed within the required time;
- b) The Federal agencies may require that future payment requests be routed to an office of the Chief Financial Officer, USDA and/or HHS representative for approval;
- c) The programs funds may be suspended;
- d) The PRDF may lose the ability to request reimbursement of federal funds for programs expenditures paid for with state funds; and
- e) The Federal Agencies may question the ability of the PRDF to manage federal awards in compliance with laws, regulations, and provisions of contracts and grant agreements;

Questioned costs

Undetermined

Recommendations

We recommend the PRDF to establish adequate procedures and controls, which shall consider, among others, the following:

- a) Maintain adequate documentation to support the petitions of funds and to maintain the audit trace of the clearance pattern; to evidence that such clearance pattern accurately represent the flow of Federal funds under the Federal assistance programs to which it is applied. Accordingly, the PRDF shall improve its internal controls over the filing and safeguarding of documents in order to easily identify and retrieve the petitions of funds and all related supporting documentation.

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

**FINDING NO. 05-07 CASH MANAGEMENT - PROGRAMS COVERED BY THE
TREASURY - STATE AGREEMENT UNDER THE ZERO
BALANCE ACCOUNTING FUNDING TECHNIQUE
(CONTINUED)**

Recommendations (continued)

- b) Establish and implement written policies and procedures for all aspects of the programs, including controls for proper review and authorization during the processing of federal funds drawdowns. Petition documents and its related supporting documentation shall be thoroughly reviewed before they are recorded and processed for refund. All fund petitions shall be properly authorized by the respective PRDF's representatives and shall be supported with all the required documentation.
- c) Provide adequate training to employees regarding each program requirements and proper claim for reimbursement processing procedures, and as to the importance of safeguarding procedures and the proper coordination and communication for the retrieval of documents when needed.

Finding Number, Topic Sentence and Program reference:	Recommendations / Total question costs:	Corrective Action taken:	Assign Date	Due Date for completion per finding	Employee / Department Responsible for Implementation:	Status corrective actions (CAF)			PAC Evaluation From Internal Audit Office (I.A.O.)	Interviews and Tests to be performed by I.A.O.
						Pending	Partial Complete	Completed		
05-07 Cash Management of Programs covered by the treasury-state agreement under the zero balance accounting funding technique Nutrition Assistance Program for Puerto Rico Temporary Assistance for Needy Families Child Support Enforcement Child Care and Development Block Grant Child Welfare Services-State Grant Social Services Block Grant Social Security-Disability Insurance	We recommend the PRDF to establish adequate procedures and controls, which shall consider, among others, the following: a) Maintain adequate documentation to support the petitions of funds and to maintain the audit tract of the clearance pattern to evidence that such clearance pattern accurately represent the flow of Federal funds under the Federal assistance programs to which it is applied. Accordingly, the PRDF shall improve its internal controls over the filing and safeguarding of documents in order to easily identify petitions of funds and all related supporting documentation.	ADSEF Response: ADSEF has adequate procedures to support the request of funds to the Federal government. ADPAN Response: The Assistant Administrator in Administration wrote a letter to the Finance Director and the Executive Director of the External Resources Office to maintain: 1) adequate documentation to support the petitions of funds and to maintain the audit trace of the clearance pattern; to evidence that such clearance pattern accurately represent the flow of Federal funds under the Federal assistance programs to which it is applied, and 2) also to improve the internal controls over the filing and safeguarding of documents in order to easily identify and retrieve the petitions of funds and all related supporting documentation, 3) establish and implement written policies and procedures for all aspects of the programs, including controls for proper review and authorization during the processing of federal funds drawdown. During this year all the employees of the External Resources Office will be taking training on the federal funds cash management.	March 2007	July 2007	Tamara Kuciano Acting Finance Director Raquel Bolado Assistant Administrator for Finance and Budget Eduardo Berrios ADPAN Assistant Administrator for Administration			X		

Finding Number, Topic Sentence and Program reference:	Recommendations / Total question costs:	Corrective Action taken:	Assign Date	Due Date for completion as per finding	Employee / Department Responsible for Implementation:	Status corrective actions (CAP)			PAC Evaluation From Internal Audit Office (I.A.O.)	Interviews and Tests to be performed by I.A.O.
						Pending	Partial Complete	Completed		
	<p>b) Establish and implement written policies and procedures for all aspects of the programs, including controls for proper review and authorization during the processing of federal funds drawdown. Petition documents and its related supporting documentation shall be thoroughly reviewed before they are recorded and processed for refund. All fund petitions shall be properly authorized by the respective PRDP's representatives and shall be supported with all the required documentation.</p> <p>c) Provide adequate training to employees regarding each program requirements and proper claim for reimbursement processing procedures, and as to the importance of safeguarding procedures and the proper coordination and communication for the retrieval of documents when needed.</p> <p>Undetermined</p>	<p>ACUDEN Response: ACUDEN restructured the Finance Division by the end of 2004. A Document Control System was developed, which includes a Central File Division to maintain the supporting documents of all fiscal transactions. This internal control has being very positive because failure or missing documentation was resolved. This system enables to keep well organized all the supporting documents needed for any auditor.</p>			Nely Resio Finance Director			X		

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINDING NO. 05-20 PERIOD OF AVAILABILITY OF FEDERAL FUNDS

Federal programs

CFDA 93.556	Promoting Safe and Stable Families
CFDA 93.569	Community Services Block Grant
CFDA 93.600	Head Start
CFDA 93.645	Child Welfare Services - State Grant
CFDA 93.658	Foster Care - Title IV-E
CFDA 93.667	Social Services Block Grant
CFDA 96.001	Social Security - Disability Insurance

Category

Compliance/Internal control

Compliance requirement

Period of availability of federal funds

Condition found

To test compliance with the period of availability of federal funds requirement, we obtained and reviewed the grant awards of the major programs of the PRDF to identify the awards (and its deadline dates) expiring during the fiscal year ended June 30, 2005. For each award, we identified the population of transactions recorded after the period of availability and tested a sample to verify whether the underlying obligations occurred within the period of availability and that the liquidation (payment) was made within the allowed time period. After performing these procedures, we noted the following:

- a) The PRDF recorded transactions after the end of the period of availability which increased the expenditures of the following programs by \$212,762,116, as follows:

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINDING NO. 05-20 PERIOD OF AVAILABILITY OF FEDERAL FUNDS
(CONTINUED)

Condition found (continued)

CFDA No.	Program	Amount Recorded After the End of the Period of Availability	Transactions Tested	Percentage of Coverage
10.566	Nutrition Assistance Program for Puerto Rico	\$ 145,347,837	\$ 112,784,528	77.6%
93.556	Promoting Safe and Stable Families	1,173,633	418,314	35.6%
93.558	Temporary Assistance for Needy Families	12,111,348	7,580,529	62.6%
93.563	Child Support Enforcement	6,271,951	4,898,868	78.1%
93.569	Community Services Block Grant	2,052,135	1,632,545	79.6%
93.600	Head Start	8,571,655	4,627,635	54.0%
93.645	Child Welfare Services - State Grant	6,436,952	3,655,431	56.8%
93.658	Foster Care - Title IV-E	11,371,719	10,183,398	89.6%
93.667	Social Services Block Grant	8,761,924	7,719,993	88.1%
96.001	Social Security - Disability Insurance	10,662,962	3,568,578	33.5%
		<u>\$ 212,762,116</u>	<u>\$ 157,069,819</u>	<u>73.8%</u>

- b) The PRDF recorded disbursements for obligations incurred after the period of availability in the amount of \$3,113,279, as follows:

CFDA No.	Program	Amount
93.556	Promoting Safe and Stable Families	\$ 195,955
93.569	Community Services Block Grant	421,892
93.600	Head Start	35,867
93.645	Child Welfare Services - State Grant	1,271,096
93.667	Social Services Block Grant	780,173
96.001	Social Security - Disability Insurance	408,296
		<u>\$3,113,279</u>

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINDING NO. 05-20 PERIOD OF AVAILABILITY OF FEDERAL FUNDS
(CONTINUED)

Condition found (continued)

- c) The PRDF liquidated obligations incurred after the grant awards' deadline dates. Such obligations amounted to \$316,056, as follows:

<u>CFDA No.</u>	<u>Program</u>	<u>Amount</u>
93.569	Community Services Block Grant	\$202,361
93.600	Head Start	<u>113,695</u>
		<u>\$316,056</u>

- d) The PRDF did not provide the supporting documents for disbursements recorded after the period of availability in the amount of \$475,312, as follows:

<u>CFDA No.</u>	<u>Program</u>	<u>Amount</u>
93.600	Head Start	\$ 1,758
93.667	Social Services Block Grant	<u>473,554</u>
		<u>\$475,312</u>

- e) The voucher number 153505000481 issued on 11/17/04 in the amount of \$2,500,000 was charged to the Foster Care - Title IV-E program. Such disbursement is related to child maintenance payments. However, we were unable to determine if the expenditures were incurred during the grant period since no reliable data is maintained. The PRDF maintains an excel spreadsheet as a control log of the maintenance payments for eligible children; however, it does not provide the payment information. Additionally, the spreadsheet is updated quarterly and no backup is maintained for previous periods. Accordingly, there is no adequate audit trail for the related data. However, no questioned costs are included herein since this payment was already questioned in Finding No. 05-04.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINDING NO. 05-20 PERIOD OF AVAILABILITY OF FEDERAL FUNDS
(CONTINUED)

Criteria

45 CFR 92.23 (a) establishes that where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

45 CFR 92.23 (b) establishes that a grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee.

Effect

The PRDF is exposed to penalties and sanctions from the grantor due to noncompliance with this requirement, including returning to the grantor the amount of funds involved or denied a reimbursement.

Questioned costs

\$ 195,955	CFDA 93.556	Promoting Safe and Stable Families
624,253	CFDA 93.569	Community Services Block Grant
151,320	CFDA 93.600	Head Start
1,271,096	CFDA 93.645	Child Welfare Services - State Grant
1,253,727	CFDA 93.667	Social Services Block Grant
<u>408,296</u>	CFDA 96.001	Social Security - Disability Insurance

\$3,904,647

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

**FINDING NO. 05-20 PERIOD OF AVAILABILITY OF FEDERAL FUNDS
(CONTINUED)**

Recommendations

To provide reasonable assurance that federal funds are used only during the authorized period of availability, the PRDF shall establish formal policies and procedures to ascertain:

- a) The budgetary process considers period of availability as to obligation and disbursement of federal funds and provide for the identification and communication of cut-off requirements;
- b) The accounting system prevents obligations or expenditures of federal funds outside the period of availability through the review of disbursements by persons knowledgeable of period of availability requirements, specially just before and after cut-off dates;
- c) The timely identification and communication of period of availability requirements and expenditure deadlines to individuals responsible for program expenditure, including automated notifications of pending deadlines;
- d) The periodic reporting of budgeted and actual expenditures and unliquidated balances to appropriate levels of management for its review before and after cut-off dates;
- e) The recording of all obligations incurred in relation to federal awards through the module of Payment Vouchers with Obligations; and
- f) The timely processing of requests for extensions of the due dates. The PRDF shall request from the grantor approval for liquidating obligations after its liquidation deadline to prevent future instances of noncompliance.

Finding Number, Topic Sentence and Program reference:	Recommendations / Total question costs:	Corrective Action taken:	Assign Date	Due Date for completion per finding	Employee / Department Responsible for Implementation:	Status corrective actions (CAF)		FAC Evaluation From Internal Audit Office (I.A.O.)	Interviews and Tests to be performed by I.A.O.
						Pending	Completed		
05-20 Period of Availability of Federal Funds Promoting Safe and Stable Families Temporary Assistance for Needy Families Child Support Enforcement Community Services Block Grant Head Start Child Welfare Services-State Social Services Block Grant Social Security-Disability Insurance	To provide reasonable assurance that federal funds are used only during the authorized period of availability, the PRDF shall establish formal policies and procedures to ascertain: a) The budgetary process considers period of availability as to obligation and disbursement of federal funds and provide for the identification of cut-off requirements; b) The accounting system prevents obligations or expenditures of federal funds outside the period of availability through the review of disbursements by persons knowledgeable of period of availability before and after cut-off dates; c) The timely identification and communication of period of availability requirements and expenditure deadlines to individuals responsible for program expenditure, including automated notifications of pending deadlines; d) The periodic reporting of budgeted and actual expenditures and unliquidated balances to appropriate levels of management for its review before and after cut-off dates; e) The recording of all obligations incurred in relation to federal awards through the module of Payment Vouchers with Obligations; and f) The timely processing of requests for extensions of the due dates. The PRDF shall request from the grantor approval for liquidating obligations after its liquidation deadline to prevent future instances of noncompliance.	ADSEP Response: We are not accepting this finding because we did not have enough time to obtain all the supporting documentation. We understand that most of the questioned costs would be eliminated if we would have more time to evaluate them. ACUDEN Response: ACUDEN has a federal and state fund with different fiscal year periods. As part of internal control established, the administration have several meetings with the key fiscal personnel before each of the closing periods in order to ensure, among other things, proper accounting of funds (expenditures and obligations in the adequate period). We also review the federal regulation that applies to local government (45 CFR Part 92) in the fiscal area and emphasized with the budget and finance division the way to obligate (contract, purchase order, goods/service received, etc.) This action helps us to have a better control of the obligations within the correct period of funds. Also, we are implementing a new and complete record keeping system which will contribute to improve the proper treatment of obligations. One of the advantages of the system is that management will be able to have monthly fiscal reports to monitor the federal funds and for timely decision-making process.			Tamara Luciano Acting Finance Director Raquel Belado Assistant Administrator for Finance and Budget Nelly Resto Finance Director	X	X		

\$6,319,858

Finding Number, Topic Sentence and Program reference:	Recommendations / Total question costs:	Corrective Action taken:	Assign Date	Due Date for completion as per finding	Employee / Department Responsible for Implementation:	Status corrective actions (CAP)			PAC Evaluation From Internal Audit Office (I.A.O.)	Interviews and Tests to be performed by I.A.O.
						Pending	Partial Complete	Completed		
		<p>This mechanized system is supposed to be fully implemented during this current year. If some obligations will not be paid in the period of time permitted by the program, ACUDEM prepares a request of extension of due dates "waiver" to the federal government. Once the approval is received, then we pay those obligations. This control is very effective to do not pay obligations out of period.</p> <p>Secretariado Response: The Disability Determination Program responds this finding to the auditors with evidence of the regulation that permit the disbursement in the determined period. In accordance with FOMS-Programs Operation Manual System, "A fiscal year is considered open until all obligations have been liquidated" until five years where all obligations it should be paid or adjusting the funds.</p> <p>ADP/AN Response: The Assistant Administrator in Administration wrote a letter to the Finance Director to: Establish an evaluation and conciliation process of the federal funds obligations and the period of availability through the review of disbursements. Establish the timely identification and communication of period of availability requirements and expenditure deadlines to individuals responsible for program expenditure, including automated notifications of pending deadlines.</p>	March 2007	July 2007	Ramón F. Cancel Finance Director Mario A. Clavel Program Director Augusto Gonzalez Activo Finance Director			X		

Finding Number, Topic Sentence and Program reference	Recommendations / Total question costs	Corrective Action taken:	Assign Date	Due Date for completion in per finding	Employee / Department Responsible for implementation:	Status corrective actions (CAP)			PAC Evaluation From Internal Audit Office (I.A.O.)	Interviews and Tests to be performed by I.A.O.
						Pending	Partial Complete	Completed		
		<p>ASUME Response: The Budget Area shall prepare a report on expenses projections taking into consideration the periods to disburse the same pursuant to the provisions of federal regulations. This report must be remitted to the Assistant Administrator of the Budget Area so she can have knowledge on which funds must be authorized taking into consideration the period in which the same can be used.</p> <p>The Finances Area shall coordinate with all Areas the pending transactions to be pledged before the closing of each fiscal year. Such transactions will be evaluated by the Assistant Administrator, the Finances Director and the Pre-interventions supervisor.</p> <p>ASUM& promises to establish a procedure to maintain the internal control at the moment of preparing fiscal impacts, authorizing and disbursing the payments. The Assistant Administrator of Administrative Operations and Budget with the support of the Legal Advisor shall be in charge of the preparation of this procedure.</p> <p>We understand that we can complete the preparation of this procedure on or before May 30, 2007.</p>	March 2007	May 2007	Vivian Montalvo Assistant Administrator for Budget and Finance Sergio Jeliu Finance Director			X		

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

**FINDING NO. 05-32 FINANCIAL REPORTING - SOCIAL SECURITY -
DISABILITY INSURANCE**

Federal program

CFDA 96.001 Social Security - Disability Insurance

Category

Compliance / Internal Control

Compliance requirement

Reporting

Condition found

As part of our audit procedures, we compared the State Agency Report of Obligations for SSA Disability Programs (OMB No. 0960-0421) of the Social Security - Disability Insurance program with the accounting records for the fiscal year ended June 30, 2005 for the Grant award 0504RQD100. After performing these procedures, we noted that the obligations reported in the State Agency Reports of Obligations for SSA Disability Programs did not agree with the accounting records and no reconciliation was submitted for our evaluation. The differences noted were as follow:

	<u>Amounts Reported</u>	<u>Amounts per Accounting Records</u>	<u>Variance</u>
Expenditures	\$ 9,038,907	\$ 9,038,907	\$ -
Unliquidated obligations	<u>2,393,153</u>	<u>3,728,014</u>	<u>(1,334,861)</u>
Balance per Accounting Records	<u>\$ 11,432,060</u>	<u>\$ 12,766,921</u>	<u>\$ (1,334,861)</u>

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

**FINDING NO. 05-32 FINANCIAL REPORTING - SOCIAL SECURITY -
DISABILITY INSURANCE (CONTINUED)**

Criteria

20 CFR 437.20 (b) (1) establishes that 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.

Effect

Failure to report accurate information on a timely basis prevents the federal agencies from monitoring the performance of the program's financial activities, assessing the achievements of the program and evaluating the expected grant award for the following years.

Additionally, noncompliance with the reporting requirements could lead to significant administrative sanctions by the grantor, including reduction in amounts to be awarded. It could also be interpreted as a failure to achieve program objectives.

Questioned costs

Undetermined

Recommendation

We recommend the PRDF to develop and implement a formal policies and procedures manual to prescribe uniform procedures on the frequency and format of reporting grant expenditures so that the record keeping system provides the information necessary to prepare the Federal reports accurately.

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINDING NO. 05-01 SINGLE AUDIT

Federal programs

All Federal Financial Assistance programs

Category

Compliance

Compliance requirement

Special Tests and Provisions

Condition found

The Single Audit report for the year ended June 30, 2005 was not submitted to the Single Audit Clearinghouse within nine (9) months after the fiscal year-end, as required by Subpart C, Section 320 of OMB Circular A-133.

This condition occurred because the accounting records are not closed in time to permit the performance of the audit and the issuance of the reports within the required period established by the regulations. In addition, the PRDF did not contract to have its audit performed on a timely basis in accordance with OMB Circular A-133.

Criteria

OMB Circular A-133, Subpart C, Section 320 establishes that all audits should 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.

Effect

Compliance with the audit requirements on a timely basis is necessary for federal grantors to be informed of the use of the federal funds they provide. Noncompliance with this requirement may expose the PRDF to disciplinary actions by the federal grantors, such as withholding of federal financial assistance and reduction in future appropriations.

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINDING NO. 05-01 SINGLE AUDIT (CONTINUED)

Questioned costs

Undetermined

Recommendation

The Accounting and Finance Division of the PRDF shall establish reliable and effective processes to enable compliance with timely monthly closing schedules and improve its year-end closing procedures to allow for the timely performance of the Single Audits. This will enable the PRDF to comply with the reporting requirements established by applicable regulations.

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINDING NO. 05-02 ACCOUNTING RECORDS

Federal programs

All Federal Financial Assistance Programs

Category

Compliance / Internal Control

Compliance requirement

Special Tests and Provisions

Condition found

During our audit procedures for the year ended June 30, 2005, we noted the following deficiencies related to the accounting policies, procedures, and financial reporting practices of the PRDF:

- The 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 or balances, and any related changes therein. The accounts are not segregated sufficiently to cover a specific activity or objective in accordance with special regulations, restrictions, or limitations.
- The PRDF has inappropriate and/or incomplete cut-off procedures, as well as incomplete month-end and year-end closing procedures. Many transactions are posted months after the applicable closing, with a retroactive effect. In this regard, a significant amount of journal vouchers is processed.
- The PRDF has inappropriate and/or incomplete budgeting control between grants award distribution and programmatic activities allocations. In various federal programs we were unable to verify its compliance with certain percentages limitations as required by applicable regulations.

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINDING NO. 05-02 ACCOUNTING RECORDS (CONTINUED)

Criteria

Subsection 7502-(e) (1) (i) of the Single Audit Act Amendment of 1996 establishes that the independent auditor should determine whether the financial statements of the auditee are presented fairly in all material respects in conformity with accounting principles generally accepted in the United States of America.

45 CFR 92.20 (a) establishes that a State must expand 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 cost-type contractors, must be sufficient to - (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Sections (b) (2), (3) and (6) of 7 CFR 3016.20 and 45 CFR 92.20 establish that grantees and sub grantees 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 sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. Effective control and accountability must be maintained for all grant and sub grant cash, real and personal property, and other assets. Accounting records must be supported by source documentation such as cancelled checks, paid bills, payroll time and attendance records, contract and sub grant award documents, etc.

45 CFR 92.20 (a) and (b) (3) establish 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 these funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Effect

The PRDF cannot prepare accurate and complete financial reports because of the limitations on its current systems and reporting practices.

Questioned costs

Undetermined

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINDING NO. 05-02 ACCOUNTING RECORDS (CONTINUED)

Recommendation

The PRDF shall revise its accounting practices and policies to provide for an accurate reporting financial system. This will require a sophisticated plan in coordination with the Puerto Rico Department of the Treasury for the implementation of an accounting and financial management system that permits the preparation of financial reports required by the different oversight entities including the need to supply information to the Commonwealth of Puerto Rico for its government wide reporting. This plan should:

- Cover the operations of the central, regional, and district offices of the PRDF.
- Consider the forthcoming changes and developments in the governmental accounting industry and their impact on the financial and operational practices of the PRDF.

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINDING NO. 05-04 DISBURSEMENT TESTS

Federal programs

CFDA 93.556 Promoting Safe and Stable Families
CFDA 93.558 Temporary Assistance for Needy Families
CFDA 93.563 Child Support Enforcement
CFDA 93.569 Community Services Block Grant
CFDA 93.658 Foster Care - Title IV-E
CFDA 93.667 Social Services Block Grant

Category

Compliance / Internal control

Compliance requirements

Activities allowed or unallowed
Allowable costs / cost principles
Procurement and suspension and debarment

Condition found

In testing compliance and internal controls over allowability and procurement and suspension and debarment requirements, we selected 214 disbursements from the programs listed above that totaled \$86,378,950. The distribution of these disbursements was as follows:

<u>CFDA NO.</u>	<u>Program</u>	<u>Items tested</u>	<u>Sample dollar amount</u>	<u>Program disbursements*</u>	<u>Percentage tested</u>
CFDA 10.566	Nutrition Assistance Program for Puerto Rico	23	\$ 14,055,275	\$ 28,896,536	48.64%
CFDA 93.556	Promoting Safe and Stable Families	27	3,412,112	7,342,177	46.47%
CFDA 93.558	Temporary Assistance for Needy Families	25	3,233,589	10,884,007	29.71%
CFDA 93.563	Child Support Enforcement	22	3,788,550	7,953,563	47.63%
CFDA 93.569	Community Services Block Grant	22	20,280,870	24,764,300	81.90%
CFDA 93.575	Child Care and Development Block Grant	20	6,976,955	15,826,667	44.08%
CFDA 93.600	Head Start	24	22,510,734	107,613,250	20.92%
CFDA 93.658	Foster Care - Title IV-E	3	10,183,398	11,371,719	89.55%
CFDA 93.667	Social Services Block Grant	23	240,363	349,110	68.85%
CFDA 96.001	Social Security - Disability Insurance	25	1,697,104	8,415,152	20.17%
		<u>214</u>	<u>\$86,378,950</u>	<u>\$223,416,481</u>	<u>38.66%</u>

* - Exclude disbursements related to payroll and payroll related expenditures.

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINDING NO. 05-04 DISBURSEMENT TESTS (CONTINUED)

Condition found (continued)

During the disbursement test performed for the Nutrition Assistance Program (CFDA 10.566), we noted that for the voucher no. 5675611, issued on January 4, 2005 in the amount of \$174,419, there was a charge of \$5,000 to the Temporary Assistance for Needy Families program, even though the activity paid for relates to PANECO's activities. Accordingly, we questioned \$5,000 to the Temporary Assistance for Needy Families program for lack of compliance with activities allowed or unallowed requirements.

We also noted other exceptions under each program during the performance of our tests, as follows:

- A. No quote, bid or proposal was available for examination.
- B. No purchase order was available for examination.
- C. No contract was available for examination.
- D. No report of work performed was available for examination.
- E. Work performed before the contract was signed (Non-Protunc).
- F. Allocated to an incorrect cost objective.
- G. Expenditures not considered necessary and reasonable under the objectives of the program.
- H. Cancelled checks not available for examination.
- I. Federal awards were not expended for allowable activities in accordance with the objectives, laws, regulations, and the provisions of contract or grant agreements pertaining to the program.
- J. Not adequately supported, documented and/or classified and accumulated.

The exceptions mentioned above are the result of: a) deficiencies of the filing system and retrieval which does not provide for immediate identification of payment documents; and b) the failure to implement adequate internal control procedures, such as thorough managerial review, which should detect and correct, on a timely basis, instances where controls are not being followed.

The exceptions noted under each program during the performance of our tests were as follow:

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINDING NO. 05-04 DISBURSEMENT TESTS (CONTINUED)

Condition found (continued)

CFDA 93.556 Promoting Safe and Stable Families

Voucher Date	Voucher Number	Amount	A	B	C	D	E	F	G	H	I	J	Questioned Costs
07/23/04	5009303	\$ 22,092										X	\$ 22,092
09/07/04	05AP9742	333,496										X	333,496
09/09/04	5009897	37,000				X							37,000
09/14/04	5009928	137,318							X				137,318
09/23/04	05001525	28,986			X								28,986
09/27/04	05009998	138,596										X	138,596
12/20/04	05011076	126,640						X				X	126,640
12/28/04	05011225	434,680						X				X	434,680
01/12/05	05011312	120,173						X					-
01/19/05	05003306	748			X								748
02/08/05	05011812	77,955					X						77,955
02/25/05	05011976	322,400						X				X	322,400
04/08/05	05005200	23,002							X				23,002
05/04/05	05012795	141,688										X	141,688
05/09/05	05012790	133,156					X						133,156
05/18/05	05013006	13,543			X				X				13,543
05/19/05	05005941	19,565							X				19,565
06/08/05	05013077	385,038						X				X	385,038
06/20/05	05006257	89,468							X				89,468
06/21/05	05013276	506,476						X					-

3 1 2 6 5 8 \$2,465,371

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2005**

FINDING NO. 05-04 DISBURSEMENT TESTS (CONTINUED)

Condition found (continued)

CFDA 93.558 Temporary Assistance for Needy Families

Voucher Date	Voucher Number	Amount	A	B	C	D	E	F	G	H	I	J	Questioned Costs
11/03/04	05675435	86,088		X									
01/21/05	05675626	101,756			X								\$ 101,756
02/14/05	05001746	356,500						X			X		356,500
05/18/05	05001843	165,500						X			X		165,500

1 1 2 2 \$ 623,756

CFDA 93.563 Child Support Enforcement

Voucher Date	Voucher Number	Amount	A	B	C	D	E	F	G	H	I	J	Questioned Costs
03/11/05	5000079	388,363				X							\$ 388,363
04/28/05	5000875	120	X										120
06/17/05	5001608	5,895	X							X			5,895

2 1 1 \$ 394,378

CFDA 93.569 Community Services Block Grant

Voucher Date	Voucher Number	Amount	A	B	C	D	E	F	G	H	I	J	Questioned Costs
03/14/05	5012277	\$ 268,172										X	\$ 268,172
05/09/05	5012895	374,357										X	374,357

2 \$ 642,529

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINDING NO. 05-04 DISBURSEMENT TESTS (CONTINUED)

Condition found (continued)

CFDA 93.658 Foster Care - Title IV-E

Voucher Date	Voucher Number	Amount	A	B	C	D	E	F	G	H	I	J	Questioned Costs
11/17/04	153505000481	\$ 2,500,000										X	\$2,500,000
												1	<u>\$2,500,000</u>

CFDA 93.667 Social Services Block Grant

Voucher Date	Voucher Number	Amount	A	B	C	D	E	F	G	H	I	J	Questioned Costs
09/10/04	05001116	\$ 8,152			X								\$ 8,152
09/10/04	05001290	9,351			X								9,351
09/21/04	05001344	3,877			X								3,877
11/10/04	05002163	1,939			X								1,939
11/10/04	05002203	16,100			X								16,100
11/23/04	05002304	17,719			X								17,719
11/24/04	05002302	377			X								377
12/28/04	05002969	4,430			X								4,430
													8
													<u>\$ 61,945</u>

Exceptions totals

2 1 12 2 2 8 5 1 2 11 \$6,687,979

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINDING NO. 05-04 DISBURSEMENT TESTS (CONTINUED)

Criteria

Section C (1) (j) of the OMB Circular A-87 "Factors affecting allowability of costs" establishes that to be allowable under Federal awards, costs must be adequately documented.

Sections (b) (2), (3) and (6) of 7 CFR 3016.20 and 45 CFR 92.20 establish that grantees and sub grantees 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 sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. Effective control and accountability must be maintained for all grant and sub grant cash, real and personal property, and other assets. Accounting records must be supported by source documentation such as cancelled checks, paid bills, payroll time and attendance records, contract and sub grant award documents, etc.

Section (b) of 7 CFR 3016.36 and 45 CFR 92.36 (b) establish that grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.

Sections (a) and (b) of 7 CFR 3016.42 and 45 CFR 92.42 establish that all financial and programmatic records, supporting documents, statistical records, and other records of grantees or sub grantees are required to be maintained by the terms of this part, program regulations or the grant agreement, or otherwise reasonably considered pertinent to program regulations or the grant agreement. Records must be retained for three years except as otherwise provided.

45 CFR Section 96.30 (a) establishes that, except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINDING NO. 05-04 DISBURSEMENT TESTS (CONTINUED)

Effect

Above conditions could result in the reimbursement of federal funds to the grantors for those disbursements not properly supported nor authorized by the corresponding grantors representatives. Also, the lack of review of payment vouchers could result in noncompliance with federal regulations and cost disallowances by the grantors. Additionally, amounts disbursed for unallowable expenditures charged to the federal programs were not detected by the PRDF due to the lack of adequate controls.

Questioned costs

\$2,465,371	CFDA 93.556	Promoting Safe and Stable Families
628,756	CFDA 93.558	Temporary Assistance for Needy Families
394,378	CFDA 93.563	Child Support Enforcement
642,529	CFDA 93.569	Community Services Block Grant
2,500,000	CFDA 93.658	Foster Care - Title IV-E
<u>61,945</u>	CFDA 93.667	Social Services Block Grant

\$6,692,979

Recommendations

We recommend the PRDF to establish adequate procedures and controls, which shall consider, among others, the following:

- a) Maintain adequate documentation to support the allowability of its expenditures. The PRDF shall improve its internal controls over the filing and safeguarding of documents in order to easily identify and retrieve payment vouchers and all related supporting documentation.
- b) Establish and implement written policies and procedures for all aspects of the programs, including controls for proper review and authorization during the processing and payment of programs expenditures. Payment documents and related supporting documentation shall be thoroughly reviewed before they are recorded and processed for payment. All payment vouchers shall be properly authorized by the respective PRDF's representatives and shall be supported with all the required documentation.

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINDING NO. 05-04 DISBURSEMENT TESTS (CONTINUED)

Recommendations (continued)

- c) Provide adequate training to employees regarding each program requirements and proper disbursement processing procedures, and as to the importance of safeguarding procedures and the proper coordination and communication for the retrieval of documents when needed.

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

**FINDING NO. 05-13 PROPERTY AND EQUIPMENT - FOSTER CARE - TITLE
IV-E**

Federal program

CFDA 93.658 Foster Care – Title IV-E

Category

Compliance / Internal control

Compliance requirement

Equipment and real estate property management

Condition found

To determine compliance with Equipment and Real Estate Property Management requirements, we obtained an understanding of the relevant state's policies and procedures in place at the PRDF. After obtaining the understanding of the state's policies and procedures, we noted that during the year ended June 30, 2005, total disbursements of the Foster Care – Title IV-E program for property and equipment amounted to \$1,735,379. To test the propriety of controls over this area, we selected a sample of nine (9) disbursements amounting to \$1,409,145 (81%). Accordingly, we performed tests of controls to determine if: a) state's policies and procedures have been complied with; b) established controls are effective; and c) assess control risk.

The PRDF did not provide the property records of four (4) of the nine (9) items selected for testing; accordingly, we were unable to determine whether the PRDF adequately safeguards and maintains the equipment related to such four (4) items, which amount to \$615,963. Additionally, for five (5) of the six (6) items available for testing (83%), the property records did not contain all the required information, as follows:

- a) Acquisition date;
- b) Cost;
- c) Percentage of federal participation in the cost; and
- d) Condition;

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

**FINDING NO. 05-13 PROPERTY AND EQUIPMENT - FOSTER CARE – TITLE
IV-E (CONTINUED)**

Condition found (continued)

Internal control

After obtaining an understanding of the state's policies and procedures and performing our tests of controls, we noted the following internal control deficiencies:

- a) The Property Division does not maintain an effective property and equipment system from which a current and complete subsidiary ledger can be prepared. Because of these deficiencies, we noted some instances in which property records did not include all required information, the data was inaccurate, or the property records were not found at all.
- b) The Property Division has not established adequate procedures and controls to ensure that all of the property and equipment acquired under the different federal programs are recorded. The recording process is very dependent on the submission of information from the different locations of the PRDF around the island. If the individual PRDF locations or federal programs do not inform the Property Division of the acquisition of an item of property or equipment, the Division does not record it.
- c) There are no established procedures or controls to immediately update the property records when an item of property or equipment either is transferred from one location to another or is disposed of. Additionally, there are no established procedures regarding federally funded property that is sold or converted to non-federal use. Without this information the PRDF does not know if it is responsible for compensating the corresponding federal awarding agencies for their share of any property sold or converted to non-federal use.
- d) The Property Division does not have an adequate property and equipment maintenance plan in order to keep property in good condition and ready for use.

The weaknesses noted are primarily due to the lack of adequate filing and communication procedures among the different areas of the PRDF related to the acquisition and handling of property and equipment.

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

**FINDING NO. 05-13 PROPERTY AND EQUIPMENT - FOSTER CARE – TITLE
IV-E (CONTINUED)**

Criteria

45 CFR Section 92.20 (b) (3) establishes that effective control and accountability must be maintained for all grant and sub grant 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.

45 CFR Section 92.32 (b) establishes that a state will use, manage, and dispose of equipment acquired under a grant by the state in accordance with state laws and procedures.

Chapter VII and Chapter K, Section (B) (2) of the State's Property Manual ("Manual de Contabilidad de la Propiedad"), establish that equipment internal records of each State Agency should include the following: (1) description of the property; (2) a serial number or other identification number; (3) the acquisition date and cost of the property; (4) source of funds for the purchase of property; (5) the location of the property; and (6) any ultimate disposition data including the date of disposal and sale price of the property. Fixed assets records should be complete and accurate regarding this information.

Chapter IX, Section (B) of the State's Property Manual and Section 19 of the State's Property Rules and Regulations ("Reglamento #11: "Control y Contabilidad de la Propiedad") establish that State agencies shall take a physical inventory on an annual basis of all the property under their jurisdiction. Once the inventory count is completed, an officer not in charge of the inventory procedures should compare the results with the property records. Differences should be reconciled and property records adjusted, as applicable.

Effect

The PRDF is exposed to the risk of possible unauthorized use and disposition of equipment due to the lack of internal controls and adequate property and equipment records. The possible misappropriation of the equipment could be significant because the PRDF owns significant types and amounts of equipment.

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

**FINDING NO. 05-13 PROPERTY AND EQUIPMENT - FOSTER CARE – TITLE
IV-E (CONTINUED)**

Questioned costs

\$615,963 CFDA 93.658 Foster Care – Title IV-E

Recommendations

The PRDF shall establish adequate controls and procedures to be followed by the Property Division. New policies and procedures implemented must address all requirements established by state and federal regulations on property management.

Property records shall include the required information for equipment purchased with federal funds to improve accountability, control and to detect possible loss or theft of property. All property records shall be thoroughly reviewed to make sure that all information included in them is accurate and pertinent.

All property and equipment shall have a property tag number that agrees with the identification number in the property records. Additionally, a physical inventory of all equipment and property shall be performed at least annually in order to reconcile it with the property records and to verify that property and equipment is being properly safeguarded and used solely for the authorized purposes.

Moreover, resources shall be allocated to the Property Divisions of the PRDF in order to implement a new system that would allow for the proper recording and safeguarding of assets. Personnel in charge of these tasks shall be adequately trained on all state and federal regulations related to the acquisition and management of property.

Overview of the Office of the Inspector General

The Office of the Inspector General (OIG) is comprised of our Office of Investigations (OI), Office of Audit (OA), Office of the Chief Counsel to the Inspector General (OCCIG), and Office of Resource Management (ORM). To ensure compliance with policies and procedures, internal controls, and professional standards, we also have a comprehensive Professional Responsibility and Quality Assurance program.

Office of Audit

OA conducts and/or supervises financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Chief Counsel to the Inspector General

OCCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Finally, OCCIG administers the Civil Monetary Penalty program.

Office of Resource Management

ORM supports OIG by providing information resource management and systems security. ORM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, ORM is the focal point for OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act of 1993.