
**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, 2004**

March 2008

A-77-08-00011

**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, 2004 (A-77-08-00011)

This report presents the Social Security Administration's (SSA) portion of the single audit of the Commonwealth of Puerto Rico, Department of the Family (PRDF), for the fiscal year (FY) ended June 30, 2004. 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. Further, 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 SSA programs, request for reimbursement was not made for eight adjustments totaling \$779,984; six transactions totaling \$21,273 were paid with outstanding balances from other grants; and request for reimbursement was not made for three transactions totaling \$11,760 to correct checks cleared (Attachment A, Pages 7 through 15). 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 16 and 17).
3. Expenditures totaling \$208,259 were charged to SSA for obligations that were incurred after the end of the period of availability (Attachment A, Pages 18 through 22). The corrective action plan indicates that a new record keeping system was implemented which will help improve accounting for obligations (Attachment A, Pages 23 through 25).
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 \$861,022 (Attachment A, Pages 26 and 27). The corrective action plan indicates that the Finance office should include information from all sources when preparing Federal reports (Attachment A, Page 28).

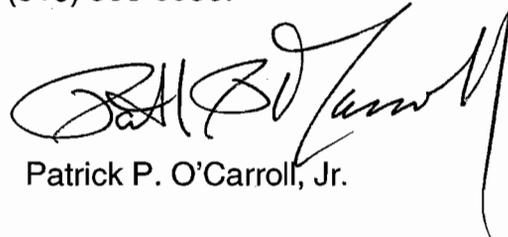
The Office of the Inspector General conducted an audit of Administrative Costs Claimed by the Commonwealth of Puerto Rico Disability Determination Program that covered the period of this single audit.¹ The administrative cost audit reviewed the areas where the single audit reported findings – personnel, 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).
- PRDF 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 according to the proper program (Attachment B, Pages 6 through 14).
- Internal controls over equipment were inadequate and property records were not provided (Attachment B, Pages 15 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.



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, 2004

FINDING NO. 04-06 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, 2004, 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, 2004 with state and federal funds amounted to \$167,788,996 and \$104,707,813, respectively (representing a total annual payroll of \$272,496,809). 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
DEPARTMENT OF THE FAMILY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-06 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 I-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 receipt 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
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-06 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 employee:

- 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 the following exceptions:

- a) In four (4) of the employees' files tested (5%), the PRDF did not provide the time sheet for one week of the bi-weekly payroll period paid. Such employees were paid with Nutrition Assistance Program for Puerto Rico (CFDA 10.566) funds. Accordingly, we were unable to ascertain whether the PRDF accounted for the total activity for which each employee was compensated and whether it reflects an after the fact distribution of the actual activity for each employee.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-06 PERSONNEL FILES AND PAYROLL TEST (CONTINUED)

Condition found (continued)

Payroll (continued)

Questioned costs related to the previous condition amount to \$2,003.

- b) 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 the year ended June 30, 2004, amounted to \$17,171.

The primary cause of the 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.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-06 PERSONNEL FILES AND PAYROLL TEST (CONTINUED)

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.

Questioned costs

\$ 2,003	CFDA 10.566	Nutrition Assistance Program for Puerto Rico
<u>17,171</u>	CFDA 93.575	Child Care and Development Block Grant

\$19,174

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 per finding	Employee / Department Responsible for Implementation:	Status corrective actions (CAF)		FAC Evaluation From Internal Audit Office (L.A.O.)	Interviews and Tests to be performed by L.A.O.
						Pending	Completed		
04-06 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. \$19,174	ADSEF Response: We do not accept these findings because the supporting documents (time sheets) related to the questioned costs were presented to the auditors for evaluation. 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 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	X				
					Elisa Figueroa Human Resource Director		X		

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-07 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 93.575 Child Care and Development Block Grant
CFDA 93.645 Child Welfare Services - State Grant
CFDA 93.667 Social Services Block Grant
CFDA 96.001 Social Security - Disability Insurance

Category

Compliance / Internal control

Compliance requirement

Cash management

Condition found

During the fiscal year ended June 30, 2004, the PRDF requested federal funds covered by the Treasury-State Agreement under the Zero Balance Accounting funding technique for the following programs:

CFDA NO.	Program	Items tested	Sample dollar amount
10.566	Nutrition Assistance Program for Puerto Rico	25	\$ 8,746,210
93.558	Temporary Assistance for Needy Families	18	6,127,248
93.563	Child Support Enforcement	22	6,701,521
93.569	Community Services Block Grant	16	23,288,364
93.575	Child Care and Development Block Grant	23	18,140,112
93.600	Head Start	25	16,711,378
93.645	Child Welfare Services - State Grant	13	1,883,359
93.667	Social Services Block Grant	20	889,815
96.001	Social Security-Disability Insurance	25	944,663
		<u>187</u>	<u>\$83,432,670</u>

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-07 CASH MANAGEMENT - PROGRAMS COVERED BY THE
TREASURY - STATE AGREEMENT UNDER THE ZERO
BALANCE ACCOUNTING FUNDING TECHNIQUE
(CONTINUED)

Condition found (continued)

For each of the 187 transactions selected for testing in the Disbursement Test (see Finding No. 04-04), 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 30 transactions (16%) in the amount of \$18,898,724 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)		
122040193	04/07/04	\$ 411,516
122040251	06/15/04	1,244,746
Temporary Assistance for Needy Families (CFDA No. 93.558)		
123007186	09/03/03	11,451
1234008162	01/01/04	2,649,229
123012726	04/29/04	390,979
Child Support Enforcement (CFDA No. 93.563)		
04A00222	10/08/03	53,612
124038505	06/30/04	281
Child Care and Development Block Grant (CFDA No. 93.575)		
123047047	07/30/03	1,530,814
123047109	08/29/03	1,401,431
123007185	09/03/03	1,323,290
4008163	01/01/04	1,320,501
2414008180	02/29/04	2,891,881
4008195	03/31/04	1,241,551
241008223	06/30/04	2,397,006
241408241	06/30/04	1,110,188
Child Welfare Services - State Grant (CFDA No. 93.645)		
123076146	04/30/04	23,367
123043651	05/31/04	6,162
Social Services Block Grant (CFDA No. 93.667)		
123060011	07/31/03	12,433
123043157	08/29/03	16,229

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-07 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
Social Services Block Grant (CFDA No. 93.667) (continued)		
123476043	09/30/03	\$ 3,515
122040065	10/03/03	74,374
123049045	11/25/03	4,184
Social Security - Disability Insurance (CFDA No. 96.001)		
122040024	07/31/03	117,390
122040085	10/14/03	96,006
122040098	11/14/03	203,416
122040260	06/30/04	97,890
4002688	01/14/04	891
122040123	01/30/04	84,788
122040164	03/29/04	93,829
122040245	06/04/04	85,774

\$18,898,724

- b) There were 33 transactions (18%) in the amount of \$10,825,053 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)				
04AP5084	07/17/03	1072519	07/24/03	\$ 278,750
04AP5419	08/13/03	1072519	07/24/03	278,180
04675799	12/12/03	1149608	12/04/03	362,000
04675835	12/12/03	1156432	12/18/03	375,500
04675839	12/02/03	1157742	12/19/03	18,750
04675887	01/13/04	1169111	01/15/04	758,767
0467589B	01/16/04	1174970	01/26/04	357,000

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-07 CASH MANAGEMENT - PROGRAMS COVERED BY THE
TREASURY - STATE AGREEMENT UNDER THE ZERO
BALANCE ACCOUNTING FUNDING TECHNIQUE
(CONTINUED)

Condition found (continued)

Voucher Number	Voucher Date	Check No.	Check Date	Amount
Nutrition Assistance Program for Puerto Rico (CFDA No. 10.566)				
(continued)				
127463095	02/28/04	@	@	\$ 2,500
04676173	03/30/04	1231246	04/01/04	98,505
04676185	04/01/04	1233195	04/05/04	250,500
04676230	04/15/04	1242438	04/20/04	268,700
04676258	04/27/04	1252297	05/03/04	269,900
04676310	05/12/04	1262632	05/14/04	93,500
04001974	06/08/04	1287093	06/15/04	269,850
04001973	06/14/04	1292483	06/21/04	895,050
04676532	06/29/04	1302826	07/01/04	266,500
Temporary Assistance for Needy Families (CFDA No. 93.558)				
04009809	09/29/03	@	@	1,000,000
04675670	10/23/03	1136145	11/04/03	130,596
04675786	12/02/03	1147937	12/05/03	54,606
0467577A	12/29/03	1164516	12/31/03	171,490
04676115	03/12/04	1216289	03/16/04	138,680
04676152	03/30/04	1232050	04/02/04	334,793
04676275	05/03/04	1254567	05/05/04	142,192
04676296	05/12/04	1262485	05/14/04	233,302
04676361	06/01/04	1279801	06/04/04	104,525
04676411	06/10/04	1288554	06/16/04	131,978
04676432	06/17/04	1295943	06/24/04	209,970
Child Care and Development Block Grant (CFDA No. 93.575)				
4019052	08/07/03	@	@	235,732
4019204	07/23/03	@	@	1,975,813
4019276	08/11/03	@	@	554,633
4019404	08/20/03	@	@	290,051
4019646	9/11/03	@	@	154,031
4020231	12/02/03	@	@	118,709

\$10,825,053

@ - Information not available.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-07 CASH MANAGEMENT - PROGRAMS COVERED BY THE
TREASURY - STATE AGREEMENT UNDER THE ZERO
BALANCE ACCOUNTING FUNDING TECHNIQUE
(CONTINUED)

Condition found (continued)

- c) There were 18 transactions (10%) in the amount of \$1,126,426 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 the 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 numbers 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
Child Welfare Services - State Grant (CFDA No. 93.645)					
04AP9458	08/06/03	01081631	08/13/03	\$ 54,171	08/21/03
04001264	09/15/03	01107818	09/22/03	11,821	09/24/03
04010711	02/05/04	01185399	02/06/04	140,249	02/17/04
04012835	05/10/04	01260189	05/12/04	174,522	05/17/04
Social Services Block Grant (CFDA No. 93.667)					
04009479	08/07/03	01082840	08/14/03	6,438	08/18/03
03044096	08/25/03	01094928	09/02/03	4,710	09/10/03

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-07 CASH MANAGEMENT - PROGRAMS COVERED BY THE
TREASURY - STATE AGREEMENT UNDER THE ZERO
BALANCE ACCOUNTING FUNDING TECHNIQUE
(CONTINUED)

Condition found (continued)

Voucher Number	Voucher Date	Check No.	Check Date	Amount	Date Cleared
Social Services Block Grant (CFDA No. 93.667) (continued)					
04001227	09/12/03	01106914	09/19/03	\$ 9,115	09/25/03
04001235	09/12/03	0116569	09/19/03	102,527	09/23/03
04001237	09/12/03	01106606	09/19/03	46,005	10/01/03
04001258	09/15/03	01108155	09/22/03	58,194	09/24/03
04001259	09/15/03	01108179	09/22/03	54,589	09/24/03
04001382	09/23/03	01113919	09/30/03	9,218	10/02/03
04009809	09/29/03	01116249	10/02/03	213,464	10/06/03
04009853	10/01/03	01121129	10/09/03	77,940	10/21/03
04010388	12/15/03	01155577	12/17/03	61,734	12/31/03
04010550	01/29/04	01179501	02/02/04	600	02/11/04
04010651	01/29/04	01179141	01/30/04	99,949	02/03/04
04AP9367	03/01/04	01207740	03/08/04	1,180	03/11/04

\$1,126,426

- d) There were two (2) transactions (1%) of the Child Care and Development Block Grant (CFDA NO. 93.575) in the amount of \$456,607 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:

Voucher Number	Voucher Date	Amount
4021580	05/04/04	\$148,964
4021369	04/12/04	307,643

\$456,607

- e) There were six (6) transactions (3%) of the Social Security - Disability Insurance program (CFDA No. 96.001) in the amount of \$21,273 for which the checks were paid with outstanding balances from other grants. This situation occurred because these checks did not appear cleared in CMIA account, thus, the cash management area did not request the corresponding petition of funds. An analysis was made by PRDF and accounting adjustments were made to correct this condition. The detail of transactions is as follows:

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-07 CASH MANAGEMENT - PROGRAMS COVERED BY THE
TREASURY - STATE AGREEMENT UNDER THE ZERO
BALANCE ACCOUNTING FUNDING TECHNIQUE
(CONTINUED)

Condition found (continued)

Voucher Number	Voucher Date	Check No.	Check Date	Amount
4000558	09/18/03	01110938	09/25/03	\$ 490
4001518	11/24/03	01144494	12/01/03	9,410
4001968	11/14/03	01142071	11/21/03	90
4002702	12/30/03	01165200	01/07/04	1,286
4003305	02/11/04	01193177	02/18/04	7,534
4036094	11/21/03	01144052	12/01/03	2,463

\$21,273

- f) There were three (3) transactions (1%) of the Social Security - Disability Insurance program (CFDA No. 96.001) in the amount of \$11,760 for which the PRDT performed an analysis to correct deficiencies related to checks cleared on CMIA account and PRIFAS; however, such funds were never requested. These transactions were as follow:

Voucher Number	Voucher Date	Check No.	Check Date	Amount	Date Cleared
4004985	04/15/04	01245934	04/26/04	\$ 6,480	12/03/04
4005740	06/04/04	01284950	06/14/04	2,900	12/03/04
4006050	06/23/04	01297543	06/28/04	2,380	12/03/04

\$11,760

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.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

**FINDING NO. 04-07 CASH MANAGEMENT - PROGRAMS COVERED BY THE
TREASURY - STATE AGREEMENT UNDER THE ZERO
BALANCE ACCOUNTING FUNDING TECHNIQUE
(CONTINUED)**

Criteria (continued)

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.

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;

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-07 CASH MANAGEMENT - PROGRAMS COVERED BY THE
TREASURY - STATE AGREEMENT UNDER THE ZERO
BALANCE ACCOUNTING FUNDING TECHNIQUE
(CONTINUED)

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 represents 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.
- 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 cost:	Corrective Action taken:	Assign Date	Due Date for completion per finding	Employee / Department Responsible for Implementation:	Status corrective actions (CAP)			PAC Evaluation From Internal Audit Office [L.A.O.]	Interviews and Tests to be performed by L.A.O.
						Pending	Partial Complete	Completed		
<p>04-07</p> <p>Cash Management of Programs covered by the treasury-state agreement under the zero balance accounting funding technique</p> <p>Nutrition Assistance Program for Puerto Rico</p> <p>Temporary Assistance for Needy Families</p> <p>Child Support Enforcement</p> <p>Child Care and Development Block Grant</p> <p>Child Welfare</p> <p>Services-State Grant</p> <p>Social Services Block Grant</p> <p>Social Security- Disability Insurance</p>	<p>We recommend the PRDF in establish adequate procedures and controls, which shall consider, among others, the following:</p> <p>u) 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 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.</p>	<p>ADSEF Response: ADSEF has adequate procedures to support the request of funds to the federal government.</p> <p>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.</p> <p>During this year all the employees of the External Resources Office will be taking training on the federal funds cash management.</p>	<p>March 2007</p>	<p>July 2007</p>	<p>Tamara Luciano Acting Finance Director</p> <p>Raquel Bañado Assistant Administrator for Finance and Budget</p> <p>Eduardo Berrios ADPAN Assistant for Administration</p>	<p>X</p>				

Finding Number, Topic Sentence and Program reference:	Recommendations / Total question costs:	Corrective Action taken:	Assign Date	Due Date for completion per funding	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 PRODF'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 Resto Finance Division Director			X		

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-19 PERIOD OF AVAILABILITY OF FEDERAL FUNDS

Federal programs

CFDA 10.566	Nutrition Assistance Program for Puerto Rico
CFDA 93.556	Promoting Safe and Stable Families
CFDA 93.558	Temporary Assistance for Needy Families
CFDA 93.575	Child Care and Development Block Grant
CFDA 93.600	Head Start
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, 2004. 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 \$188,407,078, as follows:

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-19 PERIOD OF AVAILABILITY OF FEDERAL FUNDS
(CONTINUED)

Condition found (continued)

<u>CFDA No.</u>	<u>Program</u>	<u>Amount Recorded After the End of the Period of Availability</u>	<u>Transactions Tested</u>	<u>Percentage of Coverage</u>
10.566	Nutrition Assistance Program for Puerto Rico	\$ 124,790,207	\$ 90,933,416	72.9%
93.556	Promoting Safe and Stable Families	8,823,729	5,445,567	61.7%
93.558	Temporary Assistance for Needy Families	9,399,425	5,125,445	54.5%
93.560	Family Support Payments to States - Assistance Payments	2,288,033	2,266,139	99.0%
93.563	Child Support Enforcement	2,607,396	1,819,318	69.8%
93.575	Child Care Development Block Grant	3,296,186	2,104,265	63.8%
93.600	Head Start	8,937,658	4,655,726	52.1%
93.658	Foster Care - Title IV-E	16,586,616	15,283,213	92.1%
93.667	Social Services Block Grant	3,571,987	2,674,388	74.9%
96.001	Social Security - Disability Insurance	8,105,841	4,031,563	49.7%
		<u>\$ 188,407,078</u>	<u>\$ 134,339,040</u>	<u>71.3%</u>

- b) The PRDF recorded disbursements for obligations incurred after the period of availability in the amount of \$954,018 as follows:

<u>CFDA No.</u>	<u>Program</u>	<u>Amount</u>
10.566	Nutrition Assistance Program for Puerto Rico	\$ 8,109
93.558	Temporary Assistance for Needy Families	475,519
93.575	Child Care Development Block Grant	261,690
93.667	Social Services Block Grant	441
96.001	Social Security - Disability Insurance	<u>208,259</u>
		<u>\$ 954,018</u>

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-19 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 \$232,456, as follows:

<u>CFDA No.</u>	<u>Program</u>	<u>Amount</u>
93.600	Head Start	\$205,707
93.667	Social Services Block Grant	<u>26,749</u>
		<u>\$232,456</u>

- d) The PRDF did not provide the supporting documents for disbursements recorded after the period of availability in the amount of \$2,802,285, as follows:

<u>CFDA No.</u>	<u>Program</u>	<u>Amount</u>
93.556	Promoting Safe and Stable Families	\$ 693,958
93.575	Child Care Development Block Grant	1,822,055
93.600	Head Start	284,883
93.667	Social Services Block Grant	<u>1,389</u>
		<u>\$2,802,285</u>

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.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

**FINDING NO. 04-19 PERIOD OF AVAILABILITY OF FEDERAL FUNDS
(CONTINUED)**

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

\$ 8,109	CFDA 10.566	Nutrition Assistance Program for Puerto Rico
693,958	CFDA 93.556	Promoting Safe and Stable Families
475,519	CFDA 93.558	Temporary Assistance for Needy Families
2,083,745	CFDA 93.575	Child Care Development Block Grant
490,590	CFDA 93.600	Head Start
28,579	CFDA 93.667	Social Services Block Grant
<u>208,259</u>	CFDA 96.001	Social Security - Disability Insurance

\$3,988,759

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;

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

**FINDING NO. 04-19 PERIOD OF AVAILABILITY OF FEDERAL FUNDS
(CONTINUED)**

Recommendations (continued)

- 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 (CAP)			PAC Evaluation From Internal Audit Office (I.A.O.)	Interviews and Tests to be performed by I.A.O.
						Pending	Partial Complete	Completed		
	The PRDF shall request from the grantor approval for liquidating obligations after its liquidation deadline to prevent future instances of noncompliance. \$4,366,168	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, ACUDEN 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.								
		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 PONS-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.			Ramon F. Caicedo Finance Director Mario Clavell Arias Program Director		X			
		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.			Vivian Montalvo Assistant Administrator for Budget and Finance			X		

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		
		<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 Finance Director and the Pre-interventions supervisor. ASUME 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> <p>ADPAM 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	Augusto Gonzalez Acting Finance Director			X		

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-31 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, 2004, for the Grant award 0404RQD100. 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	\$ 8,405,513	\$ 8,405,513	\$ -
Unliquidated obligations	<u>2,708,185</u>	<u>3,569,207</u>	<u>(861,022)</u>
Balance per Accounting Records	<u>\$ 11,113,698</u>	<u>\$ 11,974,720</u>	<u>\$ (861,022)</u>

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

**FINDING NO. 04-31 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.

Finding Number, Topic Sentence and Program reference:	Recommendations / Total question costs:	Corrective Action taken:	Assign Date	Due Date for completion per funding	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		
04-30 Special Reporting Social Services Block Grant	We recommend the PRDF to prepare the annual reports required. We also recommend the PRDF to establish adequate policies and procedures to ascertain that all reports are submitted on time and containing all the information required by the program. Additionally, the PRDF must provide trainings to the personnel in relation to the program's requirements, law and regulations to ascertain its compliance.	ADPAN Response: The Assistant Administrator in Administration wrote a letter to the Financial Director 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 and within its required due dates.	March 2007	July 2007	Eduardo Berríos ADFAN Assistant for Administration Augusto Gonzalez Acting Finance Director ADFAN		X			
04-31 Financial Reporting Social Security- Disability Insurance	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. None	Secretariado Response: The formats or forms used for present to the Federal government all the financial data was presented to us for each particular program. The working papers with the necessary information to fulfill this inform is determine for the information requested for them. All the information presented for the Finance Office is according with the Treasury Department, but not with the requirements of the Disability Determination Program. For the Program the Finance Office need include information by different sources. All the information and the working papers are presented in each report.			CPA Gloria Hernández Budget Director		X			

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-01 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, 2004 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 reductions in future appropriations.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-01 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, 2004

FINDING NO. 04-02 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, 2004, 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, 2004

FINDING NO. 04-02 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 subgrantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or 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, 2004

FINDING NO. 04-02 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, 2004

FINDING NO. 04-04 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 93.645	Child Welfare Services - State Grant
CFDA 93.667	Social Services Block Grant

Category

Compliance / Internal control

Compliance requirements

Activities allowed or unallowed
Allowable costs / cost principles
Period of availability of federal funds
Procurement and suspension and debarment

Condition found

In testing compliance and internal controls over allowability and procurement and suspension and debarment requirements, we selected 204 disbursements from the programs listed above that totaled \$103,647,038. The distribution of these disbursements was as follows:

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-04 DISBURSEMENT TESTS (CONTINUED)

Condition found (continued)

<u>CFDA NO.</u>	<u>Program</u>	<u>Items tested</u>	<u>Sample dollar amount</u>	<u>Program disbursements*</u>	<u>Percentage tested</u>
10.566	Nutrition Assistance Program for Puerto Rico	25	\$ 8,746,210	\$ 26,198,823	33.38%
93.556	Promoting Safe and Stable Families	12	4,931,155	5,904,682	83.51%
93.558	Temporary Assistance for Needy Families	18	6,127,248	11,391,036	53.79%
93.563	Child Support Enforcement	22	6,701,521	11,253,549	59.55%
93.569	Community Services Block Grant	16	23,288,364	27,802,479	83.76%
93.575	Child Care and Development Block Grant	23	18,140,112	51,720,079	35.07%
93.600	Head Start	25	16,711,378	112,765,597	14.82%
93.645	Child Welfare Services - State Grant	13	1,883,359	2,231,630	84.39%
93.658	Foster Care - Title IV-E	5	15,283,213	16,586,616	92.14%
93.667	Social Services Block Grant	20	889,815	1,547,760	57.49%
96.001	Social Security - Disability Insurance	25	944,663	7,553,314	12.51%
		<u>204</u>	<u>\$103,647,038</u>	<u>\$274,955,565</u>	<u>37.70%</u>

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

The legend of the exceptions noted is as follows:

- A. No supporting documents available for examination.
- B. No quote, bid or proposal was available for examination.
- C. Only one quote available for examination without letter of exclusivity.
- D. No purchase order was available for examination.
- E. No contract was available for examination.
- F. No receiving report was available for examination.
- G. No report of work performed was available for examination.
- H. Work performed before the contract was signed (Non-Protunc).
- I. Allocated to an incorrect cost objective.
- J. Expenditures not considered reasonable under the objectives of the program.
- K. 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.
- L. Obligation paid or incurred outside the period of availability.
- M. Not adequately supported, documented and/or classified and accumulated.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-04 DISBURSEMENT TESTS (CONTINUED)

Condition found (continued)

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:

CFDA 93.556 Promoting Safe and Stable Families

Voucher Date	Voucher Number	Amount	A	B	C	D	E	F	G	H	I	J	K	L	M	Questioned Costs
01/07/04	4010115	109,060							X					X		\$ 109,060
02/17/04	4010718	200,530								X						200,530
05/27/04	4012952	264,317									X				X	264,317
05/27/04	4010620	115,136						X								
1 1 1 1 1 1 1 1																\$ 573,907

CFDA 93.558 Temporary Assistance for Needy Families

Voucher Date	Voucher Number	Amount	A	B	C	D	E	F	G	H	I	J	K	L	M	Questioned Costs
08/06/03	04AP5268	\$ 67,838					X									\$ 67,838
09/29/03	4009809	1,000,000								X						1,000,000
1 1																\$1,067,838

CFDA 93.563 Child Support Enforcement

Voucher Date	Voucher Number	Amount	A	B	C	D	E	F	G	H	I	J	K	L	M	Questioned Costs
09/15/03	4000193	\$ 8,524		X												\$ 8,525
10/08/03	04A00222	53,612		X								X	X			53,612
2 1 1																\$ 62,137

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-04 DISBURSEMENT TESTS (CONTINUED)

Condition found (continued)

CFDA 93.569 Community Services Block Grant

Voucher Date	Voucher Number	Amount	A	B	C	D	E	F	G	H	I	J	K	L	M	Questioned Costs
07/16/03	4009248	\$ 603,258									X				X	\$ 603,258

1 1 \$ 603,258

CFDA 93.645 Child Welfare Services - State Grant

Voucher Date	Voucher Number	Amount	A	B	C	D	E	F	G	H	I	J	K	L	M	Questioned Costs
08/06/03	04AP9458	\$ 54,171					X					X				\$ 54,171
10/29/03	A4009928	630,659													X	630,659
11/24/03	04009998	79,545										X	X			79,545
12/02/03	04010186	26,980							X			X	X			26,980
02/05/04	04010711	140,249								X						140,249
02/06/04	04010728	90,487									X					
02/11/04	04010698	380,880									X					
04/06/04	04012377	14,500		X		X				X		X	X			14,500
04/16/04	04012595	250,017									X				X	250,017
05/10/04	04012835	174,522								X						174,522

1 1 1 1 3 3 4 3 2 \$1,370,643

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-04 DISBURSEMENT TESTS (CONTINUED)

Condition found (continued)

CFDA 93.667 Social Services Block Grant

Voucher Date	Voucher Number	Amount	A	B	C	D	E	F	G	H	I	J	K	L	M	Questioned Costs
07/31/03	123060011	\$ 12,433												X		\$ 12,433
08/07/03	04009479	6,438			X									X		6,438
08/25/03	03044096	4,710	X													4,710
09/12/03	04001227	9,115					X									9,115
09/15/03	04001258	58,194					X									58,194
09/15/03	04001259	54,589					X									54,589
09/23/03	04001382	9,218					X									9,218
09/30/03	123476043	3,515												X		3,515
10/01/03	04009853	77,940	X													77,940
12/15/03	04010388	61,734										X	X	X		8,328
01/29/04	04010550	600				X								X		600
03/01/04	04AP9367	1,180		X												1,180
			2	1	1	1	4					1	1	5		\$ 246,260
Exceptions totals			2	4	1	2	6	1	2	5	5	6	5	6	4	\$3,924,043

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.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-04 DISBURSEMENT TESTS (CONTINUED)

Criteria (continued)

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 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 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 Section 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.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-04 DISBURSEMENT TESTS (CONTINUED)

Criteria (continued)

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.

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

\$ 573,907	CFDA 93.556	Promoting Safe and Stable Families
1,067,838	CFDA 93.558	Temporary Assistance for Needy Families
62,137	CFDA 93.563	Child Support Enforcement
603,258	CFDA 93.569	Community Services Block Grant
1,370,643	CFDA 93.645	Child Welfare Services - State Grant
<u>246,260</u>	CFDA 93.667	Social Services Block Grant

\$3,924,043

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-04 DISBURSEMENT TESTS (CONTINUED)

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.
- 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.
- d) 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:
 - i. 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;
 - ii. 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;
 - iii. 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;

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-04 DISBURSEMENT TESTS (CONTINUED)

Recommendations (continued)

- iv. 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;
- v. The recording of all obligations incurred in relation to federal awards through the module of Payment Vouchers with Obligations; and
- vi. 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.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINDING NO. 04-12 PROPERTY AND EQUIPMENT - PROMOTING SAFE AND STABLE FAMILIES

Federal program

CFDA 93.556 Promoting Safe and Stable Families

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 during the year ended June 30, 2004, total disbursements of the Promoting Safe and Stable Families program for property and equipment amounted to \$1,556,220. To test the propriety of controls over this area, we selected a sample of three (3) disbursements amounting to \$1,383,256 (89%). Accordingly, we planned to perform 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.

Notwithstanding, the PRDF did not provide the property records for the Promoting Safe and Stable Families program and, accordingly, we were unable to determine whether the PRDF adequately safeguards and maintains equipment. We were also unable to determine whether disposition or encumbrance of any equipment or real property acquired under Federal awards is in accordance with Federal requirements and that the awarding agency was compensated for its share of any property sold or converted to non-Federal use.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

**FINDING NO. 04-12 PROPERTY AND EQUIPMENT - PROMOTING SAFE AND
STABLE FAMILIES (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.

Questioned costs

\$1,383,256 CFDA 93.556 Promoting Safe and Stable Families

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

**FINDING NO. 04-12 PROPERTY AND EQUIPMENT - PROMOTING SAFE AND
STABLE FAMILIES (CONTINUED)**

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.