
**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, 1999**

January 2002 A-77-02-00007

AUDIT REPORT



Mission

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

Authority

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

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

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

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

Vision

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



SOCIAL SECURITY

Office of the Inspector General

MEMORANDUM

Date: JAN 30 2002

Refer To:

Dan Sweeney
Acting Director
Management Analysis and Audit Program Support Staff

From: Assistant Inspector General
for Audit

Subject: Single Audit of the Commonwealth of Puerto Rico, Department of the Family for the
Fiscal Year Ended June 30, 1999 (A-77-02-00007)

This report presents the Social Security Administration's (SSA) portion of the single audit of the Commonwealth of Puerto Rico, Department of the Family (DOF), for the Fiscal Year ended June 30, 1999. Deloitte & Touche LLP, Certified Public Accountants (CPA) performed the audit and its reports on compliance and internal controls are attached (see Appendix A). Results of the desk review conducted by the Department of Health and Human Services (HHS) have not been received. We will notify you when the results are received if HHS determines the audit did not meet Federal requirements.

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

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

The single audit reported the following findings (See Appendix B):

Documentation to support expenditures was not available to test the base used for indirect costs. The corrective action plan indicates that DOF disagrees with the finding and that documentation was available but not requested by the auditors.

- Fiscal evaluations were not performed to ensure that disbursements of \$172,354 were allowable. The corrective action plan indicates that DOF disagrees with the finding stating that the Department's manual does not require a formal fiscal evaluation for each purchase.

- DDS expenditures of \$4,214,001 were not supported by documentation. The corrective action plan indicates that DOF disagrees with the finding citing that all documents were available except for one job plan which was subsequently provided to the auditors.
- The Financial Status Reports claimed expenditures of \$899,764 greater than amounts recorded in the general ledger. The corrective action plan indicates that reconciliations were not up to date and coordination between Program and Department officials will be scheduled to resolve this issue.

We recommend that SSA:

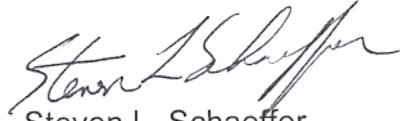
1. Ensure the DDS has a system in place to retain accounting records and supporting documentation for the time period required by applicable requirements and regulations.
2. Ensure the DDS has procedures in place for performing fiscal evaluations including comparing expenditures with budget amounts prior to making disbursements.
3. Determine whether expenditures of \$172,354 not properly reviewed prior to disbursement are allowable and recover that portion which is not allowable.
4. Determine whether the \$4,214,001 in undocumented expenditures was allowable and recover that portion which is not allowable.
5. Ensure that procedures are in place to reconcile the Financial Status Reports to the general ledger.
6. Determine whether the Financial Status Report incorrectly overstated DDS expenditures by \$899,764 and recover any unallowable costs.

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

- Financial statements were not prepared in conformity with Generally Accepted Accounting Principles due to a lack of policies, procedures, and financial reporting practices. Therefore, management did not have accurate and complete financial information on a timely basis to carry out other duties.

- Procedures were not in place to ensure financial reports are completed and submitted timely (3).
- Supporting documentation and accounting records were not retained for expenditures charged to Federal funds (19).
- DOF did not verify if parties were debarred or suspended when contracting for services or procuring goods with Federal funds.
- A system was not in place to prepare and implement corrective action plans and clear audit findings in a timely fashion.
- Payroll disbursements were not properly recorded.
- Property and equipment management procedures were not adequate (4).
- DOF did not follow required bidding procedures for procurement and contracting activities (2).
- The Financial Status Report did not agree with the general ledger (2).
- DOF expended Federal funds for costs that benefited other programs (6).
- Periodic reviews of cash management transactions for compliance with the Cash Management Improvement Act (CMIA) agreement were not conducted.
- Fiscal evaluations were not performed to ensure funds were expended for allowable activities (2).
- Evidence to support the drawdown of Federal funds could not be located.

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



Steven L. Schaeffer

Attachments

Deloitte & Touche LLP
1200 Hato Rey Tower
268 Muñoz Rivera Avenue
San Juan, Puerto Rico 00918-2511

Tel: (787) 759-7171
Fax: (787) 756-6340
www.us.deloitte.com

**Deloitte
& Touche**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED
UPON THE AUDIT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Secretary of the Family
San Juan, Puerto Rico

We have audited the Combined Statement of Cash Receipts and Cash Disbursements – All Fund Types of the Commonwealth of Puerto Rico, Department of the Family (the “Department”), for the year ended June 30, 1999, and have issued our report thereon dated May 19, 2001, which expressed a qualified opinion because of limitations on the scope of our work with respect to the Family Preservation and Foster Care programs. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's Combined Statement of Cash Receipts and Cash Disbursements – All Fund Types is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of cash receipt and disbursement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed reportable instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs as items 99-1 to 99-73. However, had the scope of our work not been limited, other reportable instances of noncompliance may have been disclosed.

The instances of noncompliance that were disclosed are summarized below and discussed in detail in the accompanying Schedule of Findings and Questioned Costs. Because of the materiality of the Federal programs to overall Department operations, compliance with such requirements is necessary, in our opinion, for the Department to comply with the legal and regulatory requirements applicable to the Department.

<u>Compliance Requirement</u>	<u>Major Program</u>	<u>Reference Number</u>
Allowable Costs/ Cost Principles	Nutrition Assistance Program for Puerto Rico	99-12, 99-13, 99-24
	Rehabilitation Services-Vocational Rehabilitation Grants to States	99-32, 99-34
	Temporary Assistance For Needy Families	99-37, 99-38, 99-39, 99-48
	Child Support Enforcement	99-50
	Community Services Block Grant	99-51, 99-52
	Child Care and Development Block Grant	99-58, 99-59
	Child Welfare Services-State Grants	99-62, 99-63, 99-64, 99-65
	Social Services Block Grant	99-68, 99-69
	Social Security - Disability Insurance	99-71
Cash Management	Nutrition Assistance Program for Puerto Rico	99-25
	Community Services Block Grant	99-54
	Social Security-Disability Insurance	99-72
Davis-Bacon Act	Rehabilitation Services-Vocational Rehabilitation Grants to States	99-33
Eligibility	Nutrition Assistance Program for Puerto Rico	99-18, 99-19, 99-20, 99-21, 99-22, 99-23, 99-26, 99-27, 99-28
	Individual and Family Grants	99-30, 99-31
	Temporary Assistance for Needy Families	99-42, 99-43, 99-46, 99-47
	Community Services Block Grant	99-55, 99-57
	Child Care and Development Block Grant	99-60
	Child Welfare Services-State Grants	99-66
Equipment and Real Property Management	Nutrition Assistance Program for Puerto Rico	99-14
	Rehabilitation Services-Vocational Rehabilitation Grants to States	99-35
	Temporary Assistance For Needy Families	99-44
Matching, Level of Effort, Earmarking	Nutrition Assistance Program for Puerto Rico	99-17, 99-29
	Temporary Assistance For Needy Families	99-49
Procurement, Suspensions and Debarments	Nutrition Assistance Program for Puerto Rico	99-15
	Temporary Assistance for Needy Families	99-40, 99-41
	Community Services Block Grant	99-53
Reporting	Nutrition Assistance Program for Puerto Rico	99-16
	Rehabilitation Services-Vocational Rehabilitation Grants to States	99-36
	Child Welfare Services-State Grants	99-67
	Social Services Block Grant	99-70
	Social Security - Disability Insurance	99-73
Subrecipient Monitoring	Community Services Block Grant	99-56
	Child Care and Development Block Grant	99-61
Special Test and Provisions	Temporary Assistance for Needy Families	99-45

<u>Compliance Requirement</u>	<u>Major Program</u>	<u>Reference Number</u>
All Requirements	Head Start	99-9
All Requirements	Foster Care	99-11
All Requirements	Nutrition Assistance Program for Puerto Rico	99-1 to 99-6 and 99-8
All Requirements	Family Preservation	99-10

The management of the Department has elected not to submit a corrective action plan in response to the Schedule of Findings and Questioned Costs. Such corrective action plans are required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* for findings relating to federally funded programs.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Combined Statement of Cash Receipts and Cash Disbursements – All Fund Types and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize and report financial data consistent with the assertions of management in the Combined Statement of Cash Receipts and Cash Disbursements – All Fund Types. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items number 99-1 to 99-73.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the Combined Statement of Cash Receipts and Cash Disbursements – All Fund Types being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Finding Numbers 99-1 to 99-6 and 99-8 to 99-11 to be material weaknesses. In addition, Finding Numbers 99-7 and 99-12 to 99-73 are deemed to be material weaknesses because of the pervasive number of the instances of the weakness across all programs. However, had the scope of our work not been limited, other reportable conditions or material weaknesses may have been identified.

This report is intended solely for the information and use of the Secretary of the Department of the Family, management, and officials of the Commonwealth of Puerto Rico and the United States Department of Agriculture (cognizant audit agency), pass-through entities, and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

May 19, 2001

Stamp No. 1758772

affixed to original

Deloitte & Touche LLP
1200 Hato Rey Tower
268 Muñoz Rivera Avenue
San Juan, Puerto Rico 00918-2511

Tel: (787) 759-7171
Fax: (787) 756-6340
www.us.deloitte.com



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
INTERNAL CONTROL OVER COMPLIANCE APPLICABLE
TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Honorable Secretary of the Family
San Juan, Puerto Rico

Compliance

We have audited the compliance of the Commonwealth of Puerto Rico, Department of the Family (the "Department"), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1999. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants, applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

Except as discussed in the fourth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Department's compliance with those requirements.

As summarized below and discussed in detail in the Schedule of Findings and Questioned Costs listed in the Table of Contents, the Department did not comply with the federal compliance requirements for the following federal award programs. Compliance with such requirements is necessary, in our opinion, for the Department to comply with requirements applicable to those programs. However, had the scope of our work not been limited, as discussed in the following paragraph, other instances of noncompliance may have been identified.

<u>Compliance Requirement</u>	<u>Major Program</u>	<u>Reference Number</u>
Allowable Costs/ Cost Principles	Nutrition Assistance Program for Puerto Rico Rehabilitation Services-Vocational Rehabilitation Grants to States	99-12, 99-13, 99-24 99-32, 99-34
	Temporary Assistance For Needy Families	99-37, 99-38, 99-39, 99-48
	Child Support Enforcement	99-50
	Community Services Block Grant	99-51, 99-52
	Child Care and Development Block Grant	99-58, 99-59
	Child Welfare Services-State Grants	99-62, 99-63, 99-64, 99-65
	Social Services Block Grant	99-68, 99-69
	Social Security - Disability Insurance	99-71
Cash Management	Nutrition Assistance Program for Puerto Rico	99-25
	Community Services Block Grant	99-54
	Social Security - Disability Insurance	99-72
Davis-Bacon Act	Rehabilitation Services-Vocational Rehabilitation Grants to States	99-33
Eligibility	Nutrition Assistance Program for Puerto Rico	99-18, 99-19, 99-20, 99-21, 99-22, 99-23, 99-26, 99-27, 99-28 99-30, 99-31
	Individual and Family Grants	99-42, 99-43, 99-46, 99-47
	Temporary Assistance for Needy Families	99-55, 99-57
	Community Services Block Grant	99-60
	Child Care and Development Block Grant	99-66
	Child Welfare Services-State Grants	99-14
Equipment and Real Property Management	Nutrition Assistance Program for Puerto Rico Rehabilitation Services-Vocational Rehabilitation Grants to States	99-35 99-44
	Temporary Assistance For Needy Families	99-49
Matching, Level of Effort, Earmarking	Nutrition Assistance Program for Puerto Rico Temporary Assistance For Needy Families	99-17, 99-29 99-49
Procurement, Suspensions and Debarments	Nutrition Assistance Program for Puerto Rico Temporary Assistance for Needy Families Community Services Block Grant	99-15 99-40, 99-41 99-53
Reporting	Nutrition Assistance Program for Puerto Rico Rehabilitation Services-Vocational Rehabilitation Grants to States Child Welfare Services-State Grants Social Services Block Grant Social Security - Disability Insurance	99-16 99-36 99-67 99-70 99-73

<u>Compliance Requirement</u>	<u>Major Program</u>	<u>Reference Number</u>
Subrecipient Monitoring	Community Services Block Grant Child Care and Development Block Grant	99-56 99-61
Special Test and Provisions	Temporary Assistance for Needy Families	99-45
All Requirements	Head Start	99-9
All Requirements	Foster Care	99-11
All Requirements	Nutrition Assistance Program	99-1 to 99-6 and 99-8
All Requirements	Family Preservation	99-10

Finding No. 99-7 applies to the General Fund only.

In accordance with the Department's request, we did not audit the Department's compliance applicable to the Foster Care and Family Preservation programs, each of which constituted less than 1% of total federal expenditures of federal awards.

In our opinion, because of the number of instances of noncompliance reported and the total dollar amount of questioned costs relating to the instances of noncompliance that were identified, the Department did not comply with the applicable federal regulations for the major programs tested.

The management of the Department has elected not to submit a corrective action plan in response to the Schedule of Findings and Questioned Costs. Such corrective action plans are required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* for findings relating to federally funded programs.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in Sections II, III and IV of this report, as listed in the Table of Contents.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Finding Numbers 99-1 to 99-6 and 99-8 to 99-11 to be material weaknesses. In addition,

Finding Numbers 99-12 to 99-73 are deemed to be material weaknesses because of the pervasive number of the instances of the weakness across all programs. However, had the scope of our work not been limited, as discussed above, other reportable conditions or material weaknesses may have been identified.

Schedule of Expenditures of Federal Awards

We have audited the Combined Statement of Cash Receipts and Cash Disbursements – All Fund Types of the Commonwealth of Puerto Rico, Department of the Family (the “Department”), for the year ended June 30, 1999, and have issued our report thereon dated May 19, 2001, which expressed a qualified opinion because of limitations on the scope of our work with respect to the Family Preservation and the Foster Care programs. We were not engaged to audit the cash receipts and cash disbursements of the Head Start program for the year ended June 30, 1999, which cash receipts and cash disbursements constitute 3.6% and 4.5%, respectively, of the special revenue fund cash receipts and cash disbursements for the year then ended. Those cash receipts and cash disbursements were encompassed in the audits of the statements of cash receipts and disbursements of the Head Start program for the twelve-month periods ended February 28, 1999 and 2000 that were performed by other auditors whose reports (which as to 1999 and 2000 expressed qualified opinions because of the lack of cost allocation plans, the effects of which, in our opinion, are not material in relation to the Combined Statement of Cash Receipts and Cash Disbursements – All Fund Types of the Department) have been furnished to us, and our report, insofar as it relates to the amounts included for the Head Start program, is based solely on the reports of such other auditors. The scope of the other auditors’ engagement includes an audit on compliance and internal control over compliance applicable to each major federal award program of the Head Start program and includes separately issued findings and questioned costs. Our audit was performed for the purpose of forming an opinion on the Combined Statement of Cash Receipts and Cash Disbursements – All Fund Types taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of Combined Statement of Cash Receipts and Cash Disbursements – All Fund Types. This schedule is the responsibility of the management of the Department. Such information has been subjected to the auditing procedures applied in our audit of the Combined Statement of Cash Receipts and Cash Disbursements – All Fund Types and, in our opinion, based on our audit and the reports of the other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had we audited the cash receipts and disbursements of the Foster Care and Family Preservation programs, is fairly stated, in all material respects when considered in relation to the Combined Statement of Cash Receipts and Cash Disbursements – All Fund Types taken as a whole.

This report is intended solely for the information and use of the Secretary of the Department of the Family, management, and officials of the Commonwealth of Puerto Rico and the United States Department of Agriculture (cognizant audit agency), pass-through entities, and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

May 19, 2001

Stamp No. 1758773
affixed to original.

Finding Number: 99-5 (Prior Year Finding No.98-5)

Program: All federal assistance programs to which indirect costs were allocated (CFDA # 10.566, 84.126, 93.558, 93.563, 93.645, 93.667 and 96.001)

Topic Sentence

It was impractical to test the base used in the indirect cost plan due to the pervasiveness of lack of supporting documentation throughout the Department.

Category

Internal Control/Compliance

Compliance Requirement

Allowable Costs/Cost Principles

Condition Found

The Indirect Cost Plan applicable to the fiscal year ended June 30, 1999 was prepared using information from the fiscal year ended June 30, 1997. Due to the pervasiveness of the lack of records throughout the Department in prior years, and the loss of records in the 1997 year (the base year for the cost allocation plan) allegedly caused by records transferred during an office move, we determined that it would be impractical to test the base used for the proposed Indirect Cost Plan.

Criteria

As per OMB Circular A-87, attachment C, section G (5), requires that all central service cost allocation plans and related documentation used as a basis for claiming costs under federal awards must be retained for audit in accordance with the records retention requirements contained in OMB Circular A-102.

Effect

The Department is unable to support the assumptions and actual costs used in the state/local-wide central service Indirect Cost Plan and might be subject to administrative sanctions from the federal government.

Underlying Cause

As discussed in finding No. 99-3, the Department's internal control procedures regarding the filing of documents are inadequate.

Known Questioned Costs

None

Recommendation

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

Finding Number: 99-71 (Prior Year Finding 98-45)

Program: Social Security-Disability Insurance-CFDA # 96.001

Topic Sentence

The Department did not perform fiscal evaluations before disbursing federal funds.

Category

Internal Control/Compliance

Compliance requirement

Allowable Costs/Cost Principles

Condition Found

In testing allowability, we selected 25 disbursements from the Disability Determination program totaling \$1,873,898 or approximately 15% disbursements of \$12,743,956 for the fiscal year ended June 30, 1999. The Department did not perform fiscal evaluations before making disbursements in ten out of the 25 selections tested amounting to \$172,354 or 9% of our sample as follows:

<u>Voucher</u>	<u>Amount</u>
99045615	\$55,425
99047443	51,854
99046528	1,002
99048913	13,975
99048173	450
99047498	39
99048207	2,919
99048387	1,850
99043161	23,470
99048175	21,370
Total	<u>\$172,354</u>

Criteria

As per OMB Circular A-102, actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement.

Effect

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

Underlying Cause

Employees are not trained to obtain the correct information and files are not reviewed by management to determine that all required information is present.

Known Questioned Costs

\$172,354

Recommendation

The Department's management should revise existing internal control policies to ascertain that fiscal evaluations are performed before disbursements are made in order to avoid budgetary overruns.

Finding Number: 99-72

Program: : Social Security-Disability Insurance-CFDA # 96.001

Topic Sentence

The Department could not locate evidence to support disbursements.

Category

Internal Control/Compliance

Compliance Requirement

Cash Management

Condition Found

In testing the cash management compliance requirements, we selected 25 Disability Determination federal funds requests from fiscal year 1998-99 totaling \$5,707,584. The Department could not provide the support of the expenditures made with state funds before requesting federal funds as follows:

Voucher	Date	Amount
411	5/21/99	\$1,773,509
439	6/30/99	<u>2,440,492</u>
Total		<u>\$4,214,001</u>

Criteria

As stated in OMB Circular A-87 and 45 CFR 92.42, financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three-years from the date of submission, unless there is litigation, claims, audits or other actions involving the records that have been started before the end of the three-year period in which the records shall be retained until all issues are resolved or the end of the three-year period, whichever is later. Also, 45 CFR 92.20 (6) requires that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time attendance records, contracts, etc.

Effect

It is possible that the Department expended federal funds for unallowable activities, which could result in disallowed costs by the awarding agency.

Underlying Cause

As discussed in finding No. 99-3, the Department's internal control procedures regarding the filing and disposition of documents are inadequate.

Known Questioned Costs

\$4,214,001

Recommendation

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

Finding Number: 99-73

Program: : Social Security-Disability Insurance-CFDA # 96.001

Topic Sentence

The Department filed Financial Status Reports that do not agree with the general ledger.

Category

Internal Control/Compliance

Compliance requirement

Reporting

Condition Found

We could not agree the amounts of disbursements in the general ledger to the Federal Financial Status Reports. Furthermore, no reconciliation is prepared by the Department.

Year	Period	General Ledger	Financial Status Report	Financial Status Report Over / (Under)
99	7/1/98-6/30/99	\$6,993,771	\$8,222,197	\$1,228,426
98	7/1/98-6/30/99	4,930,119	4,257,977	(672,142)
97	7/1/98-6/30/99	18,958	311,847	292,889
96	7/1/98-6/30/99	0	1,701	1,701
95	7/1/98-6/30/99	0	48,890	48,890
	Total	<u>\$11,942,848</u>	<u>\$12,842,612</u>	<u>\$899,764</u>

Criteria

As per 45 CFR 92.20, accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting sub-grant.

Effect

Failure to report accurate performance prevents the federal awarding agency from monitoring the performance of the program's financial activities, from assessing the achievements of the program and from evaluating the grant award for the following year. At the same time, the federal awarding agency could make significant adjustments to the grant already awarded, resulting in disallowed costs.

Underlying Cause

There is no supervisory review of reports performed to ensure the accuracy and completeness of data and information included in the reports.

Known Questioned Costs

None

Recommendation

The Department's management should conduct reviews of the Financial Status Report prior to filing comparing amounts to supporting records to ensure accurate reporting of award activities to the awarding agency.

Finding Number and Topic Sentence Reference:	Recommendations /Total question Costs:	Corrective Action Taken:	Assign Date	Due Date for completion per finding	Employee /Department Responsible for implementation:
99-4 The Department does not verify parties as to suspensions and debarments when contracting services or procuring goods with federal funds.	<p>None.</p> <p>The Department management should amend their procurement procedures and include a step to verify whether or not the individual or entity is on the list of parties excluded from federal participation in procurement and non-procurement programs. The Department should also ask the entities or individuals to submit a certification stating that they are not suspended or debarred.</p>	<p>The Office of the Administration Auxiliary Secretary established a procedure to ascertain that no provider or supplier that is included in the "List of persons or entities not authorized" will participate in the bid process or be contracted.</p> <p>On June 5, 2001 we provided the "List of Parties Excluded from Federal Procurement and Nonprocurement Programs" to the Purchase and Legal Offices.</p> <p>In addition, our contracts include three clauses that require the supplier to notify us if they have been or will be accused for a misdemeanor or any offense to the state and federal government.</p> <p>The Department will provide Internet access to the Purchase Office for continues verification of said list. Also, will prepare a form for the entities or individuals in which they certify that they are not suspended or debar from participation in federal programs.</p>	August 16, 2001	Immediately	<p>Mr. Jesús Amorrotua Director Purchase Office</p> <p>Mrs. Carmen Aponte Director Legal Office</p>
99-5 It was impractical to test the base used in the indirect cost plan due to the pervasiveness of lack of supporting documentation throughout the Department.	<p>None.</p> <p>The Department's management should ascertain that adequate source documentation exists to support amounts and items reported as expenditures. The Department should also establish a recordkeeping system to ensure that accounting records and documentation are retained for the</p>	<p>Disagree with recommendation.</p> <p>The auditors did not request evidence to perform their tests.</p> <p>The Indirect Cost Plan applicable to the year ended June 30, 1999 was prepared using information from the fiscal year ended June 30, 1995 because the Department was restructured and reorganized in the year</p>	N/A	N/A	<p>Mr. Ramón F. Cancel Director Finance Office</p>

Finding Number and Topic Sentence Reference:	Recommendations /Total question Costs:	Corrective Action Taken:	Assign Date	Due Date for completion per finding	Employee /Department Responsible for implementation:
	time period required by applicable requirements and the provisions of laws, regulations, contracts or grant agreements applicable to the program.	1996. Therefore, the year 1995 was used as base year, and the Federal Government was informed. Then, the Federal Government visited us to readjust the rates and amounts. Our filing system is effective in the custody of the fiscal documents. The Finance Office had updated records at the time the audit sample was performed.			
99-6 The Department does not have a system in place to prepare and implement corrective action plans and clear audit findings in a timely fashion.	None. The Department needs to implement a system that prioritizes and monitors the resolution of audit findings.	The Department concurs with the recommendation expressed by external auditors. The Department of the Family will establish a system that prioritizes, evaluates and monitors the corrective actions taken by the different federal programs and divisions audited including in audit findings on fiscal years 1997, 1998 and 1999. The Internal Audit Office created a new corrective action plan form that includes all findings, recommendations, actions that should be taken and the specific dates to be completed by the assigned employees and departments. The Internal Audit Office should evaluate during the fiscal year 2001-2002 a 75% of the corrective actions taken by each Program and/or Division tested on Single Audit of 1997 and 1998. The results of our CAP (Corrective Action Plan) evaluations should be informed to the General Auditor of the Family Department, on May 15,	September 20, 2001	May 15, 2002	Mr. José Fonseca Director Internal Audit Office Administration for Socioeconomic Development of Puerto Rico. Mrs. Blanca Sánchez Administration for Family and Child. Hiram González Administration for Vocational Rehabilitation. -Mrs. Aida Luz Marin Lugo Administration for Child Support Enforcement.

Finding Number and Topic Sentence Reference:	Recommendations /Total question Costs:	Corrective Action Taken:	Assign Date	Due Date for completion per finding	Employee /Department Responsible for implementation:
	also establish a recordkeeping system to ensure that accounting records and documentation are retained for the time period required by applicable requirements such as the A-102 Common Rule, and the provisions of laws, regulations, contracts or grant agreements applicable to the program.				
99-69 The Department expended federal funds for costs that benefited other programs.	\$59,523 The Department's management should establish controls to provide reasonable assurance that federal awards are expended only for allowable activities and that costs for goods or services charged to federal awards are allowable and in accordance with applicable cost principles.	The Finance Director was instructed to adjust disbursements to the correct programs. See copy of memorandum enclosed, dated August 15, 2001.	August 22,2001	September 30, 2001	Jorge A. Torres - Finance Director
99-70 The Department did not submit the Financial Status Reports when due.	None. The Department's management should develop a tracking system which reminds staff of when reports are due and they should keep adequate evidence of the submittal of all federal reports.	As part of the Finance Division reorganization, a Federal Reports Section is being created. Although this Section can't be completed until new physical space can be obtained, some of the functions are being carried out by Mrs. Juanita Muñoz. A schedule of when reports are due was prepared since February 2000. See copy enclosed. We are keeping evidence of the submission of all federal reports.	August, 2001	March, 2003	Mrs. Blanca Sánchez Administrator Auxiliary
99-71 The Department does not perform fiscal evaluations before	The Department's management should revise existing internal control policies to ascertain that fiscal	Disagree with recommendations. Three of the disbursements cited refer	N/A	N/A	Mr. Víctor Flores Director Disability Determination Program

Finding Number and Topic Sentence Reference:	Recommendations /Total question Costs:	Corrective Action Taken:	Assign Date	Due Date for completion per finding	Employee /Department Responsible for implementation:
disbursing federal funds.	evaluation are performed before disbursements are made in order to avoid budgetary overruns.	<p>to partial payments of previous established contracts. Every contract in its origin requires a formal fiscal evaluation and all the contracts cited in this finding had one. The partial payments of these contracts do not require a separate fiscal evaluation for each one of them.</p> <p>For the equipment and services purchases, an obligation is established and always within the determined and assigned budget. The Department's manual does not require a formal fiscal evaluation for each purchase.</p>			
99-72 The Department could not locate evidence to support disbursements.	The Department's management should ascertain that adequate source documentation exists to support amounts and items reported as expenditures. The Department should also establish a recordkeeping system to ensure that accounting records and documentation are retained for the time period required by applicable requirements and the provisions of laws, regulations, contracts or grant agreements applicable to the program.	<p>Disagree with recommendations.</p> <p>The Federal Government's request for funds documents were available for verification. Only the CIAF job plan was not available.</p> <p>In letters of May 10, 2001 and May 11, 2000, the Finance Office provided the requested information.</p>	N/A	N/A	Mr. Ramón F. Cancel Director Finance Office
99-73 The Department filed Financial Status Reports that do not agree with the general ledger.	The Department's management should reviews of the Financial Status Report prior to filing comparing amounts to supporting records to ensure accurate reporting of award activities to the awarding agency.	<p>The financial reconciliations are not up date.</p> <p>Coordination of reunions between the Program's and the Department's Officials will be scheduled in order to solve this issue.</p>	September 25, 2001	January 31, 2002	Mr. Victor Flores Director Disability Determination Program

Finding Number: 99-1 (Prior Year Finding No.98-1)

Accounting and Finance Department

Topic Sentence

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

Category

Internal Control

Compliance requirement

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

Condition Found

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

- There is a lack of an effective internal control structure to reasonably assure compliance with the requirements of federal laws, regulations and program compliance requirements. The Department has deficiencies in internal control such as the absence of sufficient level of control consciousness throughout all of the Department's separate administrative operations, the absence of an appropriate segregation of duties, the absence of appropriate management review and approval of transactions, accounting entries and financial and other reporting.
- There are inadequate procedures for appropriately assessing and applying accounting principles, inadequate provisions for the safeguarding of assets, the absence of an accounting procedures manual and the absence of many controls considered appropriate for an entity of this size and type.
- There is a lack of a self-balancing set of accounts for each fund to record cash and other financial resources, together with the related liabilities, residual equities balances or fund balances, and any related changes therein. Accounts should be segregated in funds or subfunds for purposes of demonstrating the accountability of the Department while carrying on a specific activity or attaining certain objectives in accordance with special regulations, restrictions, or limitations.
- The manual controls over documents are ineffective and not consistently carried out. Documents show alterations for which there is no evidence of authorization and the numerical sequence of documents is frequently interrupted.
- Inappropriate and incomplete cut-off procedures and month-end and year-end closing procedures. Many transactions are posted months after the applicable closing with a retroactive effect, or not posted at all.

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

- The General Fund budget furnished by the Department for the fiscal year ended June 30, 1999 did not agree with the state Office of Management and Budget confirmation of the budgeted amounts.
- The Department did not furnish a financial statement line item budget for the Special Revenue Fund on a fiscal year basis coinciding with the Department's annual reporting period.
- The Department does not reconcile federal grant revenues recorded in the Department's records, with the amounts received by the Government Development Bank (GDB). The GDB is the agency which receives all federal funds requests made by the Department of the Family.
- The Department does not reconcile disbursements recorded in the Department's records with the Puerto Rico Treasury Department amounts disbursed. The Treasury Department is the agency which makes all disbursements for the Department of the Family.
- The Department is not able to provide accurate information on the status of receivables from the federal government for inclusion in the Commonwealth's annual financial statements.

Criteria

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

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

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

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

OMB Circular A-102 subpart C, section 20, states that a state must expend and account for grant funds in accordance with state laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the state, as well as its subgrantees and cost-

type contractors, must be sufficient to permit preparation of reports required by this part and the statutes authorizing the grant, and permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes. The financial management systems must meet the following standards:

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

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

Underlying Cause

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

Effect

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

Known Questioned Costs

None

Recommendation

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

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

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

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

Finding Number: 99-2 (Prior Year Finding No.98-2)

Accounting and Finance Department

Topic Sentence

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

Category

Internal Control

Compliance requirement

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

Condition Found

The Department does not have a program in place to comply with the deadlines established by federal law for the submission of Single Audit reports. As a result, the Department did not comply with the required submission date of the Single Audit for the fiscal year ended June 30, 1999. The due date for this report was no later than March 31, 2000.

Criteria

OMB Circular A-133, Subpart C, Section 320 establishes that all audits shall be completed and submitted to the cognizant agency within the earlier of 30 days after receipt of the auditor's report or nine (9) months after the end of the audit period

Underlying Cause

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

Effect

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

Known Questioned Costs

None

Recommendation

The Accounting and Finance Division should establish processes that enable compliance with aggressive monthly closing schedules and improve its year-end closing procedures to allow for the timely performance of the Single Audit. This will enable the Department to be in compliance with the reporting requirements established by applicable regulations.

Finding Number: 99-3 (Prior Year Finding No.99-3)

Accounting and Finance Department

Topic Sentence

The Department does not have an effective filing system.

Category

Internal Control

Compliance requirement

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

Condition Found

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

Criteria

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

Underlying Cause

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

Effect

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

Known Questioned Costs

None (Amounts identified are included in subsequent findings)

Recommendation

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

Finding Number: 99-4 (Prior Year Finding No.98-4)

Accounting and Finance Department.

Topic Sentence

The Department does not verify the status of parties as to suspensions and debarments when contracting services or procuring goods with federal funds.

Category

Internal Control

Compliance requirement

Procurement, suspensions and debarments

Condition Found

In testing procurement, suspensions and debarments, we were not able to find evidence indicating that the Department performs procedures to assure themselves that the individuals and entities that receive contracts or sub-awards are not suspended or debarred from participation in federal programs.

Criteria

As per OMB Circular A-102, federal agencies shall not award assistance to applicants that are debarred or suspended, or otherwise excluded from or ineligible for participation in federal assistance programs under Executive Order 12549. Agencies shall establish procedures for the effective use of the List of Parties Excluded from federal procurement or non-procurement programs to assure that they do not award assistance to listed parties in violation of the Executive Order. Agencies shall also establish procedures to provide for effective use and/or dissemination of the list to assure that their grantees and subgrantees (including contractors) at any tier do not make awards in violation of the non-procurement debarment and suspension common rule.

Effect

The Department could have procured goods or services from organizations and individuals that are suspended or debarred which could result in cost disallowances by the federal awarding agency.

Underlying Cause

There are no procedures to verify that the organizations and its principals are not suspended or debarred.

Known Questioned Costs

None

Recommendation

The Department should amend their procurement procedures and include a step to verify whether or not the individual or entity is on the list of parties excluded from federal participation in procurement and non-procurement programs. The Department should also ask the entities or individuals to submit a certification stating that they are not suspended or debarred.

Finding Number: 99-6 (Prior Year Finding No.98-6)

Program: All financial assistance programs

Topic Sentence

The Department does not have a system in place to prepare and implement corrective action plans and clear audit findings in a timely fashion.

Category

Internal Control/Compliance

Compliance Requirement

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

Condition Found

The Department did not prepare a corrective action plan and did not take any corrective action to correct findings included in the current year and prior year auditors' reports.

Criteria

OMB A-133, section .315 (c), requires auditees to prepare a corrective action plan at the completion of the audit to address each audit finding included in the current year auditor's reports.

Effect

The Department will not be able to correct audit findings in a timely manner and as a result conditions found will be recurring. In addition, the Department could be subject to sanctions from the federal government including but not limited to the reduction or elimination of grant awards.

Underlying Cause

The Department's management did not comply with the requirements established in OMB Circular A-133.

Known Questioned Costs

None

Recommendation

The Department needs to implement a system that prioritizes and monitors the resolution of audit findings. The resolution of audit findings can strengthen internal controls and ensure compliance with state and federal rules and regulations.

Top-level management within the Department needs to reemphasize the need to resolve all audit findings as quickly as possible and take ownership of the issues resulting from all audits. The appointment of a supervisor of audit and compliance is a step in the right direction, but more attention from top-level management will assist the supervisor in helping to resolve recurring issues. If resource constraints are an impediment to resolving findings and improving internal controls, the Departments management needs to investigate this issue.

Finding Number: 99-8

Accounting and Finance Department

Topic Sentence

The Department did not record payroll disbursements for regular salaried personnel for the last quarter of the fiscal year 1999 and did not record benefits disbursements for one major program.

Category

Compliance

Compliance requirement

Internal Control

Condition Found

Payroll

During our financial tests, we noted that the Department's payroll for salaried personnel and payroll related disbursements for the months of April, May and June 1999 were not recorded in the corresponding general ledgers and are not included in the Department's Statement of Cash Receipts and Cash Disbursements for the year ended June 30, 1999. However, transitory and irregular salaries were recorded.

Although the checks were written and released, the payrolls were not recorded because the Commonwealth's automated payroll system, which provides the amounts to be recorded by the Department, did not produce timely detailed payroll reports. In addition, it was found that in the summary of the payroll records made subsequent to June 30, 1999 the entire payroll was incorrectly charged to one account when it should have been distributed to many individual accounts. As a result, the Department could not provide us a complete detail of the adjustments needed and their effects on the schedule of cash receipts and cash disbursements and on the different programs.

Grant Benefits

Approximately \$20 million of benefits paid to individuals in the TANF program were not recorded in the accounting records for part of the year, and are not included in the Statement of Cash Receipts and Cash Disbursements.

Criteria

The Department's internal control structure should provide for the accurate and timely recording of all transactions.

Underlying Cause

The Commonwealth is implementing the RHUM (Recurson Humanos Mecanizados) system which integrates the payroll functions of several agencies. Problems were encountered with the RHUM system and it was not implemented in full for fiscal 1999. As a result, the Department's payrolls were not included in the Schedule of Cash Receipts and Cash Disbursements. The grant benefits problem arose because there was no control over the recording of transactions and no management review.

Effect

The Department might be exposed to sanctions and cost disallowances by the federal awarding agencies.

Known Questioned Costs

None

Recommendation

The Department should implement policies and procedures to ensure that all receipts and disbursements are recorded accurately and in a timely manner in order to prevent the future occurrence of this situation. Furthermore, the overall accounting and reporting practices must be improved as discussed in finding No. 99-1.

Finding Number: 99-14 (Prior Year Finding No.98-12)

Program: Nutrition Assistance Program For Puerto Rico-CFDA #10.566

Topic Sentence

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

Category

Internal Control/Compliance

Compliance requirement

Equipment Management

Condition Found

In testing real property and equipment management we found that the Department does not perform a reconciliation of the physical inventory with the accounting records. In addition, the following items are not specified in the Department's property subsidiary ledger:

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

Total Nutritional Assistance Program For Puerto Rico property and equipment additions for the fiscal year ended June 30, 1999 totaled \$25,574.

Criteria

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

In addition 7 CFR Part 3015, Subpart R, section 3015.169 also states that every two years, at a minimum, a physical inventory shall be conducted and the results shall be reconciled with the property records to verify the existence, current utilization, and continued need for the equipment. Any discrepancies between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the differences.

Effect

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

Underlying Cause

The Department does not maintain accurate records for acquisitions and dispositions for property acquired with federal awards.

Known Questioned Costs

None

Recommendation

The Department's management should determine that proper procedures are in place to ensure that property purchased with federal funds is identified and conduct periodic inventories and follow up on inventory discrepancies. In addition, the Department's management should review all dispositions of property to ensure appropriate valuation and reimbursement to federal awarding agencies.

Finding Number: 99-15 (Prior Year Finding No. 98-10)

Program: Nutrition Assistance Program For Puerto Rico-CFDA #10.566

Topic Sentence

The Department disbursed federal funds without a signed contract.

Category

Internal Control/Compliance

Compliance requirement

Procurement, Suspensions and Debarments

Condition Found

The Department procured goods or services in the amount of \$6,647,341 during the year ended June 30, 1999. The sample size for the procurement test performed consisted of 25 disbursements, totaling \$1,352,359. We found that the Department disbursed funds for services without the existence of a signed contract in two out of 25 procurement procedures tested or 8% of our sample, amounting to \$69,372. The exceptions were as follows:

<u>Voucher Number</u>	<u>Amount</u>
AP857456	\$51,210
99858232	<u>18,162 (*)</u>
Total	<u>\$69,372</u>

(*) Amount included as part of the questioned costs reported in finding No. 99-24. Net questioned costs applicable to this finding amount to \$51,210.

Criteria

7 CFR Part 3015.182 requires all procurement transactions, regardless of whether by sealed bids or by negotiation and without regard to dollar value, shall be conducted in a manner that provides maximum open and free competition.

Effect

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

Underlying Cause

The Department's management does not review procurement and contracting activities for compliance with federal and local procurement policies.

Known Questioned Costs

\$51,210

Recommendation

The Department should conduct periodic independent reviews of procurements and contracting activities to determine whether policies and procedures are being followed as intended.

Finding Number: 99-16 (Prior Year Finding No.98-27)

Program: Nutrition Assistance Program For Puerto Rico-CFDA #10.566

Topic Sentence

The Department filed Financial Status Reports that do not agree with the general ledger.

Category

Internal Control/Compliance

Compliance requirement

Reporting

Condition Found

We could not agree the amounts of disbursements in the general ledger to the federal Financial Status Reports. Furthermore, no reconciliation is prepared by the Department.

Date	Financial		Financial Status
	General Ledger	Status Report	Report Over/ (Under)
12/31/98	\$412,809,341	\$304,747,474	\$ (108,061,867)
03/31/99	\$163,729,023	\$251,239,213	\$ 87,510,190
06/30/99	\$284,377,843	\$282,183,923	(\$2,193,920)

Criteria

34 CFR 80.20 (b)(3) states that standards for financial management systems related to internal control, effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property, and other assets and 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 grants and subgrants.

Effect

Failure to report accurate performance prevents the federal awarding agency from monitoring the performance of the program's financial activities, from assessing the achievements of the program and from evaluating the grant award for the following year. At the same time, the federal awarding agency could make significant adjustments to the grant already awarded, resulting in disallowed costs.

Underlying Cause

There is no supervisory review of reports performed to ensure the accuracy and completeness of data and information included in the reports.

Known Questioned Costs

None

Recommendation

The Department's management should conduct reviews of the Financial Status Report prior to filing comparing amounts to supporting records to ensure accurate reporting of award activities to the awarding agency.

Finding Number: 99-24 (Prior Year Finding No.98-14)

Program: Nutrition Assistance Program For Puerto Rico-CFDA #10.566

Topic Sentence

The Department disbursed administrative funds for expenditures that benefited other programs.

Category

Internal Control/Compliance

Compliance Requirement

Allowable Costs/Cost Principles

Condition Found

In testing allowability over fiscal year 1999 administrative disbursements, we selected 25 disbursements totaling \$8,315,357, or 30% of total disbursements of \$27,044,976 paid from the Nutrition Assistance Program For Puerto Rico. We found that the Department disbursed \$9,081 from NAP funds and \$9,081 from TANF funds to an entity for services that do not benefit either the TANF or the NAP programs. This occurred in one out of the 25 disbursements tested, or less than 1% of our sample, amounting to \$18,162.

Voucher Number	Program	Amount
99858232	NAP	\$9,081
	TANF	9,081
		<u>\$18,162</u>

Given that this transaction was allocated between the NAP and TANF programs, \$9,081 pertaining to NAP is questioned and the remainder will be questioned in TANF finding No 99-48.

Criteria

OMB Circular A-87 states that any cost allocable to a particular federal award or cost objective may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by laws or terms of the federal awards, or for other reasons.

Effect

This situation could result in the disallowance of costs by the federal awarding agency.

Underlying Cause

The Department's management did not review the disbursement to determine if it was for an allowable cost.

Known Questioned Costs

\$9,081. However, we have estimated the likely questioned costs to be in excess of \$10,000.

Recommendation

The Department's management should provide personnel approving and pre-auditing expenditures with a list of allowable and unallowable expenditures and there should be interaction between management and staff regarding questionable costs.

Finding Number: 99-25 (Prior Year Finding No.98-17)

Program: Nutrition Assistance Program For Puerto Rico-CFDA #10.566

Topic Sentence

The Department did not request administrative funds in accordance with established procedures.

Category

Internal Control/Compliance

Compliance requirement

Cash Management

Condition Found

In testing compliance with cash management procedures, we selected seven requests from the NAP administrative grant totaling \$13,694. We found that in all of the seven requests the Department requested funds from the Nutrition Assistance Program For Puerto Rico's administrative grant for administrative costs, other than payroll, using a different method than the one specified in the Treasury-State Agreement, which is prorated drawdowns. The requests were as follows:

Voucher <u>Number</u>	Amount <u>Requested</u>
381	\$778
383	1,647
420	391
580	5,951
619	167
655	3,814
629	946
Total	<u>\$13,694</u>

Criteria

31 CFR 205, which implements the Cash Management Improvement Act of 1990 (CMIA) (P.L. 101-453), requires state recipients to enter into agreements which prescribe specific methods of drawing down federal funds for selected large programs. Also, according to the signed Treasury-State agreement, NAP administrative expenses should be requested using the Prorated Drawdowns funding technique which requires the Program to request one-sixth (1/6) of the administrative expenses on the payroll's average clearance date (4 days after the payroll check's date) when the payroll is paid semi-monthly or one-third if paid monthly.

Effect

The Department could be exposed to sanctions by the federal awarding agency due to violations of the treasury state agreement.

Underlying Cause

The Department does not conduct periodic reviews of cash management transactions for compliance with the Treasury-State agreement.

Known Questioned Costs
None

Recommendation

The Department's management should schedule periodic independent evaluation (e.g. by internal audit, top management) of entity cash management, budget and actual results, repayment of excess interest earnings, and federal drawdown activities.

Finding Number: 99-38 (Prior Year Finding 98-45)

Program: Temporary Assistance for Needy Families-CFDA # 93.558

Topic Sentence

The Department did not perform fiscal evaluations before expending federal funds.

Category

Internal Control/Compliance

Compliance requirement

Allowable Costs/Cost Principles

Condition Found

In testing allowability, we selected 25 administrative disbursements from the TANF program totaling \$2,039,962 or approximately 26% of total administrative disbursements of \$7,744,626 for the fiscal year ended June 30, 1999. We found that the Department did not perform fiscal evaluations before making disbursements. This occurred in four out of the 25 selections tested amounting to \$22,900 or 1% of our sample as follows:

Voucher	Amount
99-858182	\$3,420
99-857741	155
99-857680	412
99-003831	18,913
Total	<u>\$22,900</u>

Criteria

As per OMB Circular A-102, actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement.

Effect

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

Underlying Cause

Management does not ensure that all files are reviewed for the required information.

Known Questioned Costs

\$22,900

Recommendation

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

Finding Number: 99-54

Program: Community Services Block Grant-CFDA #93.569

Topic Sentence

The Department could not locate evidence to support the drawdown of federal funds.

Category

Internal Control/Compliance

Compliance Requirement

Cash Management

Condition Found

In testing compliance with cash management procedures, we selected 25 drawdowns performed by the Administration of Families and Children. The Department could not provide us adequate supporting documentation for the following drawdown:

<u>Request Number</u>	<u>Date</u>	<u>Amount</u>
250	10/6/1998	\$2,350,100

Criteria

As per 45 CFR 74.53 (b), financial records, supporting documents, statistical records and all other records pertinent to an award shall be retained for a period of three-years from the date of submission of the final expenditure report. In the case that any litigation, claim, financial management review or audit is started before the expiration of the three-year period, the records shall be retained until the litigation or audit findings have been resolved and final action has been taken.

Effect

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

Underlying Cause

As discussed in finding No.99-3, the Department's internal control procedures regarding the filing of documents are inadequate. Also, management does not effectively review cash management files in all instances to determine grant compliance.

Known Questioned Costs

\$2,350,100

Recommendation

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

Overview of the Office of the Inspector General

Office of Audit

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

Office of Executive Operations

The Office of Executive Operations (OEO) provides four functions for the Office of the Inspector General (OIG) – administrative support, strategic planning, quality assurance, and public affairs. OEO supports the OIG components by providing information resources management; systems security; and the coordination of budget, procurement, telecommunications, facilities and equipment, and human resources. In addition, this Office coordinates and is responsible for the OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act. The quality assurance division performs internal reviews to ensure that OIG offices nationwide hold themselves to the same rigorous standards that we expect from the Agency. This division also conducts employee investigations within OIG. The public affairs team communicates OIG's planned and current activities and the results to the Commissioner and Congress, as well as other entities.

Office of Investigations

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

Counsel to the Inspector General

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