
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILIY
FOR THE FISCAL YEAR
ENDED JUNE 30, 2007**

August 2009

A-77-09-00012

**MANAGEMENT
ADVISORY REPORT**



Mission

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

Authority

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

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

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

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

Vision

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



SOCIAL SECURITY

MEMORANDUM

Date: August 20, 2009

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, 2007 (A-77-09-00012)

This report presents the Social Security Administration's (SSA) portion of the single audit of the Commonwealth of Puerto Rico, Department of the Family (PRDF), for the Fiscal Year ended June 30, 2007. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

The audit firm Torres Llompart, Sanchez Ruiz L.L.P. performed the audit. We have not received the results of the desk review conducted by the U.S. Department of Agriculture (USDA). We will notify you when we receive the results 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 Llompart, Sanchez Ruiz L.L.P., 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.¹

For single audit purposes, the Office of Management and Budget (OMB) 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 program in accordance with Federal regulations. The Puerto Rico DDS is reimbursed for 100 percent of allowable costs. The PRDF is the Puerto Rico DDS' parent agency.

¹ In January 2009, the President's Council on Integrity and Efficiency was superseded by the Council of the Inspectors General on Integrity and Efficiency, *Inspector General Reform Act of 2008*, Pub. L. No. 110-409 § 7, 5 U.S.C. App. 3 § 11.

The single audit reported PRDF:

1. Did not submit the single audit report to OMB's Federal Audit Clearinghouse within 9 months after the fiscal year-end (Attachment A, Page 1). The corrective action plan² indicates PRDF will establish reliable and effective processes to comply with the reporting requirements.³
2. Had deficient accounting policies, procedures, and financial reporting practices including a lack of a self-balancing set of accounts, inappropriate, and/or incomplete monthly and year-end closing procedures (Attachment A, Pages 2 through 4). The corrective action plan indicated that a customized application system was being developed that will provide accurate and complete financial and budgetary information.³
3. Had an inadequate filing system that did not permit the prompt retrieval of payment and other documents requested (Attachment A, Pages 5 and 6). The corrective action plan indicated a Document Control System was developed that includes a Central File Division to maintain the supporting documents of all fiscal transactions.³
4. Had multiple documents missing from personnel files and payroll transactions that were not being properly monitored (Attachment A, Pages 7 through 10). The corrective action plan indicated that a taskforce was organized to review 3,000 personnel files to verify full compliance with all State regulations.³
5. Did not have adequate procedures and controls over the timing of cash draws for SSA's disability program and therefore was not in compliance with OMB Circular A-102 (see Attachment A, Pages 11 through 15). PRDF disagreed with this finding; therefore, no corrective action was indicated in the report.
6. Did not have an effective property and equipment system (Attachment A, Page 16 through 18). The corrective action plan indicated that PRDF was developing a customized automated Property Management System.³

² The corrective action plans contained in the Single Audit of the Commonwealth of Puerto Rico, Department of the Family, for the Fiscal Year Ended June 30, 2007, were of very low print quality. Therefore, the corrective action plans are not included in this report. By request, the Office of the Inspector General (OIG) will provide a copy of the single audit report to SSA.

³ This finding and OIG's recommendation were reported in the Management Advisory Report: *Single Audit of the Commonwealth of Puerto Rico, Department of the Family, for the Fiscal Year Ended June 30, 2006* (A-77-09-00011), issued August 5, 2009. Accordingly, we are not making a recommendation.

7. Charged expenditures totaling \$196,389 to SSA for obligations that were incurred after the end of the period of availability (see Attachment A, Pages 19 through 23). The corrective action plan indicates PRDF will implement a mechanized application of budget control and financial transaction's register for Federal and State funds that will facilitate fiscal compliance with Federal regulations.

We recommend that SSA:

1. Ensure PRDF's cash draws for SSA's disability program are in accordance with OMB Circular A-102.
2. Determine whether obligations recorded after the period of availability resulted in unallowable charges and if so, request a refund of the unallowable costs.

Please send copies of the final Audit Clearance Document to Ken Bennett. If you have questions contact Ken Bennett at (816) 221-0315 extension 1558.



Patrick P. O'Carroll, Jr.

Attachments

FINDING NO. 07-01 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, 2007 was not submitted to the Federal Clearinghouse within nine (9) months after the fiscal year-end.

This condition occurred because the accounting records were 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.

Criteria

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

Effect

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

Questioned costs

Could not be determined

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.

FINDING NO. 07-02 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, 2007, 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. As discussed in other findings within this report, 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 awards 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.

Criteria

45 CFR 92.20 (a) and (b) (3) establishes that a State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to - (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

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

Effect

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

Questioned costs

Could not be determined

Recommendations

The PRDF shall review 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 (PRDT) 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.

Recommendations (continued)

This plan should:

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

We also recommend the PRDF to implement a general ledger accounting system to integrate the subsidiary ledgers of its fund types. Each subsidiary ledger should be reconciled to the general ledger on a monthly basis. This would allow the PRDF to prepare monthly financial statements. Also, the accounting personnel must be closely supervised to ensure the accuracy of the financial reports.

Additionally, we recommend the design and implementation of a reconciliation report to document the procedures related to the reconciliation with the PRDT accounting system (PRIFAS). Each preparer must sign the reconciliation. Also, the supervisory personnel should review the reconciliation to identify old or unusual reconciling items and to ensure its accuracy. A proper segregation between recording and reconciliation functions shall be established. To improve the audit trail, the review of the reconciliation should be evidenced in writing. The reviewer can evidence this procedure by initialing the reconciliation and tick-marking the items reviewed.

Furthermore, we recommend the PRDF's accounting personnel to perform, on a monthly basis, an analysis of subsequent payments. This would allow the preparation of reliable financial information and a proper matching of revenues and expenditures.

FINDING NO. 07-03 FILING SYSTEM

Federal programs

All Federal Financial Assistance Programs

Category

Internal control

Compliance requirement

Special tests and provisions

Condition found

During the performance of our audit tests, we noted that except for the Secretariat, the procedures followed by the PRDF's personnel did not permit the prompt retrieval of payment and other documents requested. In addition, we observed that various payment documents and other important data processed by the different federal program accountants and the personnel at the payment division were maintained and filed without any logical sequence.

Criteria

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. It also states that an effective control and accountability must be maintained for all grants and sub grantees cash, real and personal property, and other assets. Grantees and sub grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Effect

The lack of an adequate filing system may cause the loss of important payment information and supporting documentation that provides essential evidence on the use of federal funds.

FINDING NO. 07-03 FILING SYSTEM (CONTINUED)

Questioned costs

Could not be determined

Recommendations

The PRDF shall emphasize the importance of maintaining an adequate filing system that allows the prompt retrieval of all payment documents and related supporting documentation.

Additionally, the PRDF should implement a mechanized system that permits the efficient filing, tracking and retrieval of filed documents.

FINDING NO. 07-06

PERSONNEL FILES AND PAYROLL TEST

Federal programs

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

Activities allowed or unallowed

Allowable costs / cost principles

Condition found

During the fiscal year ended June 30, 2007, the PRDF had approximately 6,300 employees compensated with State funds and 3,200 compensated with Federal funds. Total payroll and payroll related expenditures paid for the year ended June 30, 2007 with State and Federal funds amounted to \$218,263,274 and \$87,772,484, respectively (representing a total annual payroll of \$306,035,758). 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 85 employees. The sample was composed of 40 employees compensated with state funds and 45 with federal funds, for an estimated annual payroll \$1,286,828 and \$1,124,669, respectively (representing a total annual payroll of \$2,411,497). 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

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' files:

Documents Missing	Total Files Examined	Document Not Found	Percentage
Personnel History (DEFAM-01)	85	4	4.71%
Health Cert. (DEFAM-12)	85	26	30.59%
Criminal Record Certificate	85	4	4.71%
Academic Preparation Verification	85	3	3.53%
Copy of SS Card	85	8	9.41%
Copy of ID with Photo	85	32	37.65%
Annual Evaluation	85	51	60.00%
Detention Registry (ORHELA)	85	16	18.82%
Corruption Registry (PRP)	85	4	4.71%
Employment Eligibility verification I-9 Form	85	6	7.06%
Drug Free Test	85	16	18.82%
Child Support Certification (ASM-5)	85	13	15.29%
Certification of Tax return filed (form 330-05)	85	3	3.53%
PR Treasury Department debt certificate	85	13	15.29%
Asume Debt Certificate	85	15	17.65%
CRIM Debt Certificate	85	15	17.65%
Withholding Form (499 R-4)	85	19	22.35%
Certification of Double Compensation	85	21	24.71%
Professional License	85	1	1.18%
Professional Association Registration Receipt	85	5	5.88%
Commitment and Certification of Confidentiality of Information (OA-2001-03)	85	1	1.18%
Certification of received documents	85	29	34.12%
Certification of Requirements Verification (DEFAM-44)	85	3	3.53%
Appointment and Fidelity Pledge	85	1	1.18%
Job Description (DEFAM-10)	85	29	34.12%
Employment application and/or Resume	85	28	32.94%

Personnel files (continued)

Additionally, the Head Start program has additional documentation requirements. The following documentation was missing from the sample of five Head Start employees' files tested:

- a) Verification of personnel and employees references (1 case)
- b) Negative declaration listing legal cases related to child abuse and neglected (2 cases)
- c) Evidence of staff and consultants' knowledge, skills and experience, as needed to perform their assigned functions (2 cases)

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

During the payroll test for the year ended June 30, 2007, we were unable to trace the voucher number 0000750745 in the amount of \$31,858 related to the payroll of October 31, 2006 to the financial data provided by the PRDT. The primary cause of improper salary charges is due to PRDF's failure to monitor payroll transactions.

Criteria

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

45 CFR Section 92.20 (b) (3) establishes that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

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

Criteria (continued)

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

Effect

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

Questioned costs

Could not be determined

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 NO. 07-08 CASH MANAGEMENT - PROGRAMS NOT COVERED BY THE TREASURY - STATE AGREEMENT

Federal programs

CFDA 14.850	Public and Indian Housing
CFDA 93.556	Promoting Safe and Stable Families
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, 2007, the PRDF requested federal funds not covered by the Treasury-State Agreement for the following programs:

<u>CFDA NO.</u>	<u>Program</u>	<u>Items tested</u>	<u>Sample dollar amount</u>
14.850	Public and Indian Housing	11	\$ 1,542,201
93.556	Promoting Safe and Stable Families	25	2,323,246
93.645	Child Welfare Services - State Grant	1	957,444
93.658	Foster Care - Title IV-E	5	21,057,636
93.667	Social Services Block Grant	9	2,943,454
96.001	Social Security - Disability Insurance	25	561,583
		<u>76</u>	<u>\$29,385,564</u>

For each of the 76 transactions selected for testing, we reviewed the documentation supporting the clearance pattern and determined whether the PRDF followed the procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and their disbursement. After performing such procedures, we noted that there were seven (7) transactions (9%) in the amount of \$1,183,026 which represent adjusting journal entries and, accordingly, there was no check clearance and no petition of funds (for claim of reimbursement). For the remaining 70 transactions tested in the amount of \$28,202,538, we noted the following exceptions:

Condition found (continued)

- a) There were four (4) transactions (5%) in the amount of \$18,839 related to the Social Security - Disability Insurance program for which the check was cleared in the CMIA account held at the Governmental Development Bank; however, no request of funds has been issued to the Federal Government. The detail of transactions follows:

Voucher Number	Voucher Date	Check No.	Check Date	Amount
07AP0325	07/10/06	01774644	07/18/06	\$ 6,240
07000860	08/10/06	01788550	08/17/06	4,095
07005554	03/19/07	01916744	03/26/07	4,524
07006552	05/17/07	01953743	05/25/07	3,980

\$18,839

- b) There were 18 transactions (24%) in the amount of \$788,775 for which Federal funds were received by the PRDF prior to the day the PRDF paid out the funds for Federal assistance program purposes. The detail of transactions follows:

Voucher Number	Voucher Date	Check No.	Check Date	Amount	Receipt Voucher Number	Receipt Voucher Date	Days Elapsed
Public and Indian Housing (CTDA No. 14,850)							
07012054	05/14/07	01975717	6/28/07	\$176,471	2007007497	06/21/07	7
07012055	05/14/07	01975718	6/28/07	163,675	2007007497	06/21/07	7
Homeless Shelter Program (CTDA No. 93,553)							
07009206	09/20/06	01815736	09/27/06	88,000	20616884	08/23/06	35
07010192	11/27/06	01853638	12/04/06	12,768	20623961	11/24/06	10
07010323	12/08/06	01861807	12/15/06	1,740	20623254	11/15/06	30
07010344	12/19/06	01869801	12/28/06	10,644	20625826	12/19/06	9
07010825	02/09/07	01894372	02/16/07	1,684	20702813	02/12/07	4
07011287	03/13/07	01913159	03/20/07	59,752	20705132	03/14/07	6
07011572	03/30/07	01925214	04/09/07	127,717	20706649	04/02/07	7

Condition found (continued)

Voucher Number	Voucher Date	Check No.	Check Date	Amount	Receipt Voucher Number	Receipt Voucher Date	Days Elapsed
Social Security - Disability Insurance (CEDA No. 96-001)							
07004206	01/24/07	01881279	01/29/07	5,040	20701157	01/17/07	12
07004327	02/06/07	01891306	02/13/07	2,090	97018056	01/18/07	26
07004715	02/15/07	01897749	02/22/07	52,739	97037093	02/06/07	16
07004860	02/23/07	01902215	03/02/07	14,310	97045059	02/14/07	16
07005926	04/13/07	01932384	04/20/07	52,739	977088051	03/29/07	22
07005988	04/19/07	01935291	04/27/07	4,590	97094007	04/03/07	24
07006598	05/07/07	01945384	05/14/07	6,266	97127062	05/07/07	7
07007204	06/13/07	01969913	06/20/07	6,120	97149031	05/29/07	22
07007576	06/25/07	01978066	07/22/07	2,430	97165051	06/14/07	38
\$788,775							

- c) As noted in Finding No. 07-04, we also noted seven (7) instances in the Promoting Safe and Stable Families program where the cash draws passed to subrecipients were not adequately documented since they are supported by numerous invoices, payroll summaries, or copies of checks which are not reliable and/or properly classified and accumulated. Accordingly, for these cases we were unable to ascertain whether the PRDF followed the procedures implemented to assure that subrecipients minimize the time elapsing between the transfer of Federal funds from the recipient and the pay out of funds for program purposes (A-102 Common Rule § _____.37(a)(4)).

Criteria

45 CFR Section 205.12 (b) (4) establishes that under the cash advance (pre-issuance or post-issuance) funding the Federal Program Agency transfers the actual amount of Federal funds to a State that will be paid out by the State, in a lump sum, not more than three business days prior to the day the State issues checks or initiates EFT payments.

31 CFR Section 205.33 (a) establishes that states must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project.

Criteria (continued)

The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102.

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 and/or HHS representative for approval;
- c) The program funds may be suspended;
- d) The PRDF may lose the ability to request reimbursement of federal funds for programs expenditures paid for with state funds; and
- e) The Federal Agencies may question the ability of the PRDF to manage federal awards in compliance with laws, regulations, and provisions of contracts and grant agreements.

Questioned costs

Could not be determined

Recommendations

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

**FINDING NO. 07-08 CASH MANAGEMENT - PROGRAMS NOT COVERED BY
THE TREASURY - STATE AGREEMENT (CONTINUED)**

Recommendations (continued)

- a) 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.
- b) 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 NO. 07-11 EQUIPMENT MANAGEMENT

Federal programs

All Federal Financial Assistance Programs

Category

Compliance / Internal control

Compliance requirement

Equipment and real estate property management

Condition found

The PRDF's Property and Equipment Division (the Property Division) lacks certain internal controls over property and equipment acquired with federal funds. To determine compliance with Equipment and Real Estate Property Management requirements, we obtained an understanding of PRDF's policies and procedures in place. After such procedure we noted the following internal control deficiencies:

- a) The Property Divisions do not maintain an effective property and equipment system from which a current and complete subsidiary ledger can be prepared, as follows:
 - i) The property records of the Secretariat did not include for each property item the acquisition date, the location, and any ultimate disposition data including the date of disposal and/or sale price of the property;
 - ii) The property records of ADFAN did not include for each property item the location, use and condition, and any ultimate disposition data including the date of disposal and/or sale price of the property;
 - iii) The property records of ASUME did not include for each property item the source of the property, who holds title, the location, use and condition of the property; and any ultimate disposition data including the disposal date and/or sale price of the property;
 - iv) The property records of ADSEF did not include for each property item the acquisition date and any ultimate disposition data including the date of disposal and/or sale price of the property; and

Condition found (continued)

- v) No property records from ACUDEN were available for examination.
- b) There are no established procedures or controls to update immediately the property records when an item of property or equipment either is transferred from one location to another or is disposed of. Additionally, there are no established procedures regarding federally funded property that is sold or converted to non-federal use. Without this information the PRDF does not know if it is responsible for compensating the corresponding federal awarding agencies for their share of any property sold or converted to non-federal use.
- c) The PRDF did not provide any evidence as to whether a physical inventory of the property was taken and the results reconciled with the property records at least once every two years.

Criteria

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.

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.

Criteria (continued)

45 CFR Section 92.32 (d) (1) establishes that property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

45 CFR Section 92.32 (d) (2) establishes that a physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

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. Also, the lack of adequate controls over property and equipment exposes the PRDF to cost disallowances.

Questioned costs

Could not be determined

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.

Recommendations (continued)

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 Division 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.

FINDING NO. 07-18 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 93.563	Child Support Enforcement
CFDA 93.569	Community Services Block Grant
CFDA 93.575	Child Care Development Block Grant
CFDA 93.600	Head Start
CFDA 93.645	Child Welfare Services - State 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, 2007. 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 \$169,859,307, distributed as follows:

Condition found (continued)

<u>CFDA No.</u>	<u>Program</u>	<u>Items Tested</u>	<u>Dollar Sample Tested</u>	<u>Amount Recorded After the End of the Period of Availability</u>		<u>Percentage of Coverage</u>
				<u>Availability</u>	<u>Coverage</u>	
10.566	Nutrition Assistance Program for Puerto Rico	16	\$ 76,985,519	\$ 113,590,505	67.8%	
93.556	Promoting Safe and Stable Families	24	879,501	1,488,838	59.1%	
93.558	Temporary Assistance for Needy Families	17	8,630,995	12,582,027	68.6%	
93.560	Family Support Payments	5	14,380,337	14,380,337	100.0%	
93.563	Child Support Enforcement	12	3,959,200	5,183,279	76.4%	
93.569	Community Services Block Grant	5	2,595,250	2,770,977	93.7%	
93.575	Child Care Development Block Grant	6	3,025,953	3,264,468	92.7%	
93.600	Head Start	20	7,085,181	8,571,655	82.7%	
93.645	Child Welfare Services - State Grant	21	3,132,127	4,012,640	78.1%	
96.001	Social Security - Disability Insurance	23	1,813,163	4,014,581	45.2%	
		<u>149</u>	<u>\$ 122,487,226</u>	<u>\$ 169,859,307</u>	<u>72.1%</u>	

- b) The PRDF recorded disbursements for obligations incurred after the period of availability in the amount of \$1,303,891, as follows:

<u>CFDA No.</u>	<u>Program</u>	<u>Amount</u>
93.556	Promoting Safe and Stable Families	\$ 661,700
93.563	Child Support Enforcement	3,531
93.569	Community Services Block Grant	9,427
93.575	Child Care Development Block Grant	48,656
93.645	Child Welfare Services - State Grant	384,188
96.001	Social Security – Disability Insurance	<u>196,389</u>
		<u>\$1,303,891</u>

Condition found (continued)

- c) The PRDF liquidated obligations after the grant awards' deadline dates. Such obligations amounted to \$666,748, as follows:

<u>CFDA No.</u>	<u>Program</u>	<u>Amount</u>
93.563	Child Support Enforcement	\$ 182,376
93.569	Community Services Block Grant	484,372
93.600	Head Start	<u>769,681*</u>
		<u>\$1,436,429</u>

* - Questioned costs already included in Finding No. 07-04.

- d) The PRDF did not provide the supporting documents for disbursements recorded after the period of availability in the amount of \$410,350, as follows:

<u>CFDA No.</u>	<u>Program</u>	<u>Amount</u>
93.556	Promoting Safe and Stable Families	\$ 91,395
93.558	Temporary Assistance for Needy Families	<u>318,955</u>
		<u>\$410,350</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.

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.

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

\$ 753,095	CFDA 93.556	Promoting Safe and Stable Families
318,955	CFDA 93.558	Temporary Assistance for Needy Families
185,907	CFDA 93.563	Child Support Enforcement
493,799	CFDA 93.569	Community Services Block Grant
48,656	CFDA 93.575	Child Care Development Block Grant
384,188	CFDA 93.645	Child Welfare Services – State Grant
<u>196,389</u>	CFDA 96.001	Social Security - Disability Insurance

\$2,380,989

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:

Recommendations (continued)

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

Overview of the Office of the Inspector General

The Office of the Inspector General (OIG) is comprised of an Office of Audit (OA), Office of Investigations (OI), Office of the Counsel to the Inspector General (OCIG), Office of External Relations (OER), and Office of Technology and Resource Management (OTRM). To ensure compliance with policies and procedures, internal controls, and professional standards, the OIG also has a comprehensive Professional Responsibility and Quality Assurance program.

Office of Audit

OA conducts 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 reviews and program evaluations on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts investigations 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 liaison to the Department of Justice on all matters relating to the investigation of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Counsel to the Inspector General

OCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCIG 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. Also, OCIG administers the Civil Monetary Penalty program.

Office of External Relations

OER manages OIG's external and public affairs programs, and serves as the principal advisor on news releases and in providing information to the various news reporting services. OER develops OIG's media and public information policies, directs OIG's external and public affairs programs, and serves as the primary contact for those seeking information about OIG. OER prepares OIG publications, speeches, and presentations to internal and external organizations, and responds to Congressional correspondence.

Office of Technology and Resource Management

OTRM supports OIG by providing information management and systems security. OTRM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OTRM is the focal point for OIG's strategic planning function, and the development and monitoring of performance measures. In addition, OTRM receives and assigns for action allegations of criminal and administrative violations of Social Security laws, identifies fugitives receiving benefit payments from SSA, and provides technological assistance to investigations.