
**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, 2002**

APRIL 2004

A-77-04-00013

**MANAGEMENT
ADVISORY 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

MEMORANDUM

Date: April 15, 2004

Refer To:

To: Candace Skurnik
Director
Audit Management and Liaison Staff

From: Assistant Inspector General
for Audit

Subject: Management Advisory Report: Single Audit of the Commonwealth of Puerto Rico, Department of the Family, for the Fiscal Year Ended June 30, 2002 (A-77-04-00013)

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, 2002. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

Ernst & Young LLP performed the audit. 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. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by Ernst & Young LLP and the reviews performed by HHS.

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

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

The single audit reported that:

1. DoF could not supply all of the required documentation for its contracts. The corrective action plan indicated that a process to update contract files with required documentation was initiated (Attachment A, pages 1 and 2).
2. The Time Report of Personnel Services (SSA-4514) was not submitted timely. The corrective action plan indicated that the DDS and DoF will coordinate their efforts to ensure the reports are prepared and submitted timely (Attachment A, page 3).

We recommend SSA:

1. Ensure the DDS implemented procedures to maintain required documentation for contracts.
2. Verify that adjustments were made to ensure the DDS complies with established due dates for Federal reports.

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. I am bringing these matters to your attention as they represent potentially serious service delivery and financial control problems for the Agency (Attachment B, pages 1 through 23).

- DoF has significant deficiencies (10) in its internal control structure, accounting and financial management systems, budgetary controls and financial reporting practices (Attachment B, pages 1 through 5).
- DoF did not have an effective filing system (Attachment B, pages 6 and 7).
- Federal reports (9) were not submitted timely (Attachment B, page 8).
- Supporting documentation for employee files and accounting records (24) was not retained for expenditures charged to Federal funds (Attachment B, pages 9 and 10).
- Payment vouchers (4) were incomplete (Attachment B, pages 11 and 12).
- Property and equipment management procedures (7) were not adequate (Attachment B, pages 13 and 14).
- Financial Status Reports (6) were not reconciled with the General Ledger (Attachment B, pages 15 and 16).

- Federal funds (2) were disbursed prior to receiving a signed contract or after their effective date (Attachment B, pages 17 and 18).
- Evidence to support the drawdown of Federal funds (7) could not be located (Attachment B, pages 19 and 20).
- DoF paid for obligations made after the allowed time period (Attachment B, page 21).
- DoF made a Federal disbursement (2) for an unallowed activity (Attachment B, pages 22 and 23).

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


Steven L. Schaeffer

Attachments

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-98

Program: Disability Determination Services – CFDA #96.001

Topic

Contract files were missing documentation.

Category

Compliance / Internal Control

Compliance Requirement

Allowable Activities

Criteria

The Contract Regulation of the Department of the Family, regulation 5449, establishes the required documents for contracts.

In addition, according to OMB Circular A-102 Subpart C, Section 20(2), 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 the grant or subgrant award. They must include: authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. Accounting records must be supported by source documentation such as: cancelled invoices, pre-audit invoices, paid bills, payrolls, time and attendance records, etc. Records must be retained for three years unless otherwise stated.

A-102 Common Rule and OMB Circular A-110, require that non-Federal entities receiving Federal awards establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. In addition, the *ultravires clause* of the contract indicates that no service will be rendered until the signing of the contract by both parties. This clause is enforced by the Contract Granting Regulation of the Department of the Family.

Condition Found

In testing compliance with the activities allowed for the program we examined the complete population of medical professionals contracted by the Department and a sample of doctors that perform evaluations for disability determination. Total medical services for Disability Determination Services were \$3,247,401 (or 26% of total disbursements). The Department did not furnish adequate supporting evidence in the following cases:

Contractor	Contract Number	Good Behavior Certificate
Tomás Febo González (Patólogo)	N/A	X
Carmen Camacho Tropical (Tecnólogo)	N/A	X

(X) - Exceptions

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-98 (continued)

Program: Disability Determination Services – CFDA #96.001

Known Questioned Costs
None.

Underlying Cause
The Department's internal control for maintaining files is inadequate.

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

Recommendation
The Department's management should ascertain that adequate source documentation exists to support the process for contracting professional services and private corporations that will administer Federal and public funds. The Department should also establish a record keeping system to ascertain that accounting records and documentation are retained for the time period required by applicable regulations and the provisions of laws, contracts or grant agreements of the program.

Management's Response
In November 2002, a process of updating contract files began at DDS, in which missing documentation was requested to all medical providers. As of June 2003, DDS has contacted 100% of the medical providers. They are still pending to contact 19 psychologists, 46 x-ray centers and 50 labs. DDS has been receiving the requested documentation from the providers. This process is expected to be completed by December 2003. In addition, for those contracts that need to be renewed, DDS will ascertain that all required documentation is complete and updated.

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-99

Program: Disability Determination Services – CFDA #96.001

Topic

The Department did not submit the Financial Status Report when due.

Category

Internal Control / Compliance

Compliance Requirement

Reporting

Criteria

The recipients must submit the SSA-4513 and SSA-4514 no later than 30 days after the end of each specified reporting period for quarterly and semi-annual reports, and 90 calendar days for annual and final reports.

Condition Found

In order to test compliance with the reporting deadline of the Program, we selected the four quarterly reports and noted that the Time Report of Personnel Services (SSA-4514) for the period ended 12-31-01 was submitted 25 days late.

Known Questioned Cost

None

Underlying Cause

The accountant in-charge prepared the expense reports and were submitted late for the period mentioned above.

Effect

Inaccurate reporting prevents the Federal awarding agency from monitoring the program's financial activities, assessing the achievements of the program and evaluating the grant award for the following year.

Recommendations

The Department should develop a tracking system, which reminds staff due dates. Adequate evidence of the submittal of all Federal reports should be retained by the Department.

Management's Response

Coordination between DDS' Finance Section and the Department's Finance Division has been improved and currently, reports are being prepared and submitted in a timely manner.

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-01

Program: Accounting and Finance Department

Topic

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.

Criteria

Auditees 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:

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-01 (continued)

Program: Accounting and Finance Department

Criteria (continued)

- 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 that 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 cost: 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 report 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 reconciliation of amounts reflected in control accounts with subsidiary records and the reconciliation of transactions and balances between different departments and agencies.

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-01 (continued)

Program: Accounting and Finance Department

Condition Found

The Department 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.

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

- 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 disbursed by the Puerto Rico Treasury Department. The Treasury Department is the agency that makes all disbursements made by the Department of the Family.

Known Questioned Costs

None

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-01 (continued)

Program: Accounting and Finance Department

Underlying Cause

The Department's management has not adopted a policy of following accounting principles generally accepted in the United States 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.

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 Governmental Accounting Standards Board.

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-01 (continued)

Program: Accounting and Finance Department

Management's Response

At ADSEF, the following corrective measures are taking place:

- Restructuring of Finance Division and Budget Division – ADSEF is currently evaluating a proposal from a CPA firm to perform a complete restructuring of the Finance and Budget Divisions at ADSEF. This restructuring will consider single audit findings for FY 2000, FY 2001 and FY 2002 as well as the latest financial reviews performed by the USDA. The consultants will evaluate current procedures, evaluate all applicable state and federal laws and regulations, streamline and develop new procedures, in writing, to comply with such regulations and establish internal controls. Also, accounting procedures will be developed and established to ascertain the accuracy and timeliness of financial information for reporting and management purposes.

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-02

Program: Accounting and Finance Department

Topic

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.

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.

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.

Known Questioned Costs

None (Amounts identified are included in subsequent findings).

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.

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-02 (continued)

Program: Accounting and Finance Department

Recommendation

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

Management's Response

At ADSEF, the following corrective measures are taking place:

- Filing and Control Section - In January 2003, a new Central Filing Division was designed to maintain supporting documentation of all transactions performed by the Finance Division (payment vouchers, journal vouchers, payrolls, etc.). A specific area was designated; staff was assigned to this division, and the process of organizing all files begun. Process will be completed by September 30, 2003.

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-03

Program: Accounting and Finance Department

Topic

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

Category

Internal Control / Compliance

Compliance Requirement

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

Criteria

OMB Circular A-133, Subpart C, Section 320 of the Uniform Administrative Requirements for Grants Agreements to state and local governments 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. However, for fiscal year beginning on or before June 30, 2000, submission 13 months after the end of the audit period was permitted.

Condition Found

The Department did not comply with the required submission date of the Single Audit for the fiscal year ended June 30, 2002. The due date for this report was no later than March 31, 2003.

Known Questioned Costs

None

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.

Recommendation

The Department should establish aggressive monthly closing schedules and improve its year-end closing procedures to allow for the timely performance of the Single Audit and enable the Department to comply with the reporting requirements established by applicable regulations.

Management's Response

The Department requested and was granted an extension by cognizant agency to issue the single audit report by July 31, 2003.

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-04

Program: Department of the Family – Secretariado

Topic

Employee records were missing documentation.

Category

Internal Control

Compliance Requirements

Payroll and Human Resources

Criteria

The Personnel Regulation of the Department of the Family, Article 15, establishes the documents that should be in the regular employee's file.

In addition, according to OMB Circular A-102 Subpart C, Section 20(2), grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. In addition, the Employee Regulations established by the Human Resources Department also described the required personnel documentation.

These records must contain information pertaining to the grant or subgrant award. They must include: authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. Accounting records must be supported by source documentation such as: cancelled invoices, pre-audit invoices, paid bills, payrolls, time and attendance records, etc. Records must be retained for three years unless otherwise stated.

A-102 Common Rule and OMB Circular A-110, require that non-Federal entities receiving Federal awards establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations and program requirements.

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-04 (continued)

Program: Department of the Family – Secretariado

Condition Found

In testing the internal controls established for the payroll and hiring process, we tested 25 employee records and related payroll information to evaluate the procedures implemented to comply with the Department's regulations for the fiscal year ended June 30, 2002. Upon our inspection we noted the following:

Employee	Social Security Number	Good Behavior Certificate	Social Security Card Copy	Diploma Education	Drug-Free Certification
Barrios Medina, Ana M.	582-25-5166				X
Carreras Guzmán, Betsey M.	194-60-7163		X		X
Cruz Ortiz, Omayra	581-41-2733				X
Febus García, Cruz E.	583-38-4575				X
Gerena Ramos, Ivonne	583-68-9442		X		X
Ramos, María de los Angeles	584-32-0218	X	X	X	X
Rivera Santiago, Carmen E.	583-07-1597	X	X	X	X
Rodríguez Valentín, Irma I.	581-82-0792				X
Segui de Casanova, Idida Iris	581-44-5092			X	X

(X) - Exceptions

Known Questioned Costs

Could not be determined.

Underlying Cause

The Department's process to ensure employee records are complete is not effective.

Effect

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

Recommendation

The Department should improve the process of filing employee records and retaining the required documentation. The Department should establish a record retention system to ascertain that employee records and documentation are retained for the time period required by applicable regulations and law provisions.

Management's Comments

The Human Resources Division of the Department is in the process of updating 100% of employee records. Notifications have been sent to employees requesting the required documentation.

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-05

Program: Department of the Family – Secretariado

Topic

Payment vouchers were incomplete.

Category

Internal Control

Compliance Requirements

Allowable Costs

Criteria

As per OMB Circular A-102 Subpart C, Section 20 (2), 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 the grant or subgrant awards and authorizations, obligations, un-obligated balances, assets, liabilities, outlays or expenditures, and income. Accounting records must be supported by such source documentation as cancelled invoices, pre-audited invoices, paid bills, payrolls, time and attendance records, etc. Except as otherwise provided, records must be retained for three years.

Condition Found

In testing the internal controls established for the disbursement process, we tested 25 vouchers amounting to \$102,503. We evaluated the procedures implemented to comply with local and Federal regulations for the fiscal year ended June 30, 2002. We noted the following exceptions:

Supplier Name	Payment Voucher Number	Payment Voucher Date	Federal Award Number	Preaudit Evidence	Cancelled Invoice
Luis A. Escabi	02000087	13-Jun-01	0104RQDI00	X	X
Rogelio González	02000100	19-Jun-01	0104RQDI00	X	X
Gladimiro Dávila	02000150	20-Jun-01	0104RQDI00	X	X
Rafael E. Martín Jiménez	02000281	29-Jun-01	0104RQDI00	X	X
Xerox Corporation	02000574	14-Jun-01	N/A	X	X
Laboratorio Clínico Las Torres	02001002	18-Jul-01	0104RQDI00	X	X
Jorge Santiago Colón	02001020	19-Jul-01	0104RQDI00	X	X
Trevor H. Grant	01001078	1-Aug-01	0104RQDI00	X	X
Corporation Rodum	02000423	6-Jun-01	N/A	X	X
Wackenhut Puerto Rico, Inc.	02001880	5-Sep-01	G0101PR4004		X
Water Factory, Inc.	02001436	9-Nov-01	N/A		X
Leonel Shub Mizrahi HNC-MCM	02002651	7-Dec-01	N/A	X	X
Caribbean Data Systems	02003716	16-Apr-02	N/A		X
Agencia EFE	02004120	21-May-02	N/A		X
Andrés Reyes Burgos, Inc.	02004189	30-May-02	N/A		X

(X) - Exceptions

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-05 (continued)

Program: Department of the Family – Secretariado

Known Questioned Costs

Could not be determined.

Underlying Cause

The Department does not have proper internal controls established to ascertain that verification process for disbursements is properly documented.

Effect

The Department may have expended funds for unallowable activities which could result in disallowed costs by Federal awarding agency.

Recommendation

The Department should establish procedures to ensure that verification process for disbursements is properly documented. The verification procedures should be documented and distributed to the corresponding personnel.

Management's Comments

A Pre-Audit section was created in the Finance Division of the Department. This section ascertains that all disbursements processed are complete and properly supported.

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-09

Program: Nutrition Assistance Program for Puerto Rico – CFDA #10.566

Topic

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

Category

Compliance / Internal Control

Compliance Requirement

Equipment Management

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, 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, 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.

Condition Found

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 percent of the 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 program property and equipment additions for the fiscal year ended June 30, 2002 amounted to \$143,252.92

Known Questioned Costs

Could not be determined.

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-09 (continued)

Program: Nutrition Assistance Program for Puerto Rico – CFDA #10.566

Underlying Cause

The Department does not have procedures to maintain accurate records for acquisitions and dispositions for property acquired with Federal funds. Management does not have knowledge of Federal requirements regarding property acquired with Federal funds.

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.

Recommendation

The Department must implement internal control procedures to ensure that the requirements of property acquired with the Federal funds are met. Management and employees should receive training and written policies must be prepared.

Management's Response

The Department acknowledged our finding and agreed with our recommendation.

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-14

Program: Nutrition Assistance Program for Puerto Rico – CFDA #10.566

Topic

The Department did not reconcile Expense Reports with the G/L 15 Treasury Department report.

Category

Compliance / Internal Control

Compliance Requirement

Reporting

Criteria

7 CFR section 251.10 (d)(1)) standards for financial management system related to internal control, effective control and accountability must be maintained for all grants and subgrants cash, real property and other assets and accurate and complete disclosure of financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grants and subgrants.

Condition Found

The Finance Department did not reconcile Expense Reports with the G/L 15 report. The differences presented between those reports are as follows:

Program	Expense Report	G/L 15 Treasury Department	Difference
PANADM 2001-02	\$ 41,953,286.62	\$ 44,789,329.71	\$ (2,836,043.09)
PANBEN 2001-02	1,194,551,666.27	1,192,169,593.27	2,382,073.00
PYTADM 2001-02	5,065,002.99	4,041,548.96	1,023,454.03
PYTIS 2001-02	25,095,651.01	15,286,953.03	9,808,697.98
Total	\$1,266,665,606.89	\$1,256,287,424.97	\$10,378,181.92

Known Questioned Costs

None

Underlying Cause

There is no adequate control over the information used to prepared Federal reports. Nobody ensures the accuracy and completeness of the data and reconciles the data in the accounting department with the data in the G/L 15 (Treasury Department).

Effect

It is possible that the Department expended program funds for unallowable costs or for unallowable activities, which could result in a disallowance by the Federal awarding agency.

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-14 (continued)

Program: Nutrition Assistance Program for Puerto Rico – CFDA #10.566

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 record keeping 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 program.

Management's Response

ADSEF's Finance Director will be conducting monthly meetings with the Federal Reports section Supervisor and Accounting Supervisor to reconcile expenditures reported in the financial status reports with the general ledger and Puerto Rico Integrated Financial Accounting Systems (PRIFAS).

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-20

Program: The Emergency Food Assistance Program –TEFAP
CFDA #10.568 & CFDA #10.569

Topic

The Department signed contracts after their effective date.

Category

Compliance / Internal Control

Compliance Requirement

Allowable Activities

Allowable Costs

Criteria

The Contract Regulation of the Department of the Family, regulation 5449, establishes the required documents for contracts.

In addition, according to OMB Circular A-102 Subpart C, Section 20(2), 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 the grant or subgrant award. They must include: authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. Accounting records must be supported by source documentation such as: cancelled invoices, pre-audit invoices, paid bills, payrolls, time and attendance records, etc. Records must be retained for three years unless otherwise stated.

A-102 Common Rule and OMB Circular A-110, require that non-Federal entities receiving Federal awards establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. In addition, the *ultravires clause* of the contract indicates that no service will be rendered until the signing of the contract by both parties. This clause is enforced by the Contract Granting Regulation of the Department of the Family.

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-20 (continued)

Program: The Emergency Food Assistance Program –TEFAP
CFDA #10.568 & CFDA #10.569

Condition Found

We noted that the following contracts and amendments were signed after their effective date:

Contract Number	Contract Amount	Effective Date	Signed Date
127-000080 Amendment A	\$ 304,500.00	7/1/2001	7/5/2001
127-000002 Amendment A	29,469.60	7/1/2001	10/9/2001
127-000004 Amendment B	704.40	7/1/2001	10/9/2001
127-200165 Amendment A	152,459.49	7/1/2001	10/9/2001
127-200165 Amendment B	152,459.49	1/1/2002	1/7/2002
127-200165 Amendment D	184,857.56	4/1/2002	No date
127-200259	22,085.36	1/1/2002	2/14/2002
127-200202	6,000.01	7/16/2001	7/31/2001

Known Questioned Costs

Questioned costs included in Finding Number 02-26.

Underlying Cause

The Department's internal control related to contract evaluation and authorization is inadequate.

Effect

The Department may have expended funds for unallowable activities, which could result in disallowed costs by the Federal agency making the award.

Recommendation

The Department should ascertain that adequate source documents exist to support the process of contracting for professional services, goods, etc. The Department should establish a record retention system to ascertain that documents are maintained for the period of time required by applicable regulations, provisions of law, contracts or grant agreements of the program.

Management's Response

The Department acknowledged our finding and agreed with our recommendation.

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-27

Program: The Emergency Food Assistance Program –TEFAP
CFDA #10.568 & CFDA #10.569

Topic

The Department could not locate evidence to support the time elapsed between the request for Federal funds and the disbursement of such funds.

Category

Compliance / Internal Control

Compliance Requirement

Cash Management

Criteria

31 CFR 205.12(4) establishes that the Pre-issuance funding means that a 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.

Condition Found

In testing the compliance with cash management, we examined 18 vouchers for disbursements amounting to \$437,413. We evaluated the procedures implemented to minimize the time elapsed between the transfer of Federal funds and the disbursement of funds for program purposes. Following our inspection we noted the following:

Voucher Number	Amount of Voucher	Time Elapsing (Days)
JP127557738	\$ 291.81	15
FV2485182	100.80	15
EV02676236	82,649.80	21
EV02675752	7,367.40	29
EV02AP5050	25,000.00	32
EV02675724	4,931.71	34
JP127557738	20,050.00	54
EV02675989	24,420.00	81
Total	\$164,811.52	

The time elapsed between the request for funds and the date of payment fluctuated between 15 and 81 days. The maximum time allowed is three days.

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-27 (continued)

Program: The Emergency Food Assistance Program –TEFAP
CFDA #10.568 & CFDA #10.569

Known Questioned Costs

Could not be determined.

Underlying Cause

The Department requested funds more than three days prior to the day on which it made a disbursement.

Effect

The Department may incur in an interest liability to the Federal Government from the day the Federal funds are credited to a state account to the day the State pays out the funds for programs purposes.

Recommendation

The Department should ascertain that adequate source documents exist to support the cash management of Federal funds. Procedures should be established to ascertain that the time elapsed between the receipt and use of funds is minimal. The Department should also establish a record retention system to ascertain the compliance with the time period required by applicable regulations and the provisions of laws, contracts or grant agreements of the program. The state must conduct periodic monitoring to avoid these situations.

Management's Response

The Department acknowledged our finding and agreed with our recommendation.

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-37

Program: Promoting Safe and Stable Families – CFDA # 93.556

Topic

The Department paid for obligations made after the allowed time period.

Category

Internal Control / Compliance

Compliance Requirement

Period of Availability of Funds

Criteria

45 CFR § 1357.32 (g) establishes that funds must be expended by September 30 of the fiscal year following the fiscal year in which the funds were awarded.

Condition Found

In testing compliance with the period of availability of funds, we verified the disbursements listed in the report GL 15 for different Federal awards and evaluated the procedures implemented to comply with the regulations of the Federal Programs and Internal Control for the fiscal year ended June 30, 2002. Upon our inspection we noted that there was a disbursement in June 2002, amounting to \$11,584.40, from grant number G-9701RQ00FP. The period of availability of funds for this grant was from October 1, 1997 until September 30, 1999.

Known Questioned Cost

\$11,584

Underlying Cause

The Department process of accounting for expenses is not effective.

Effect

The Department could be disbursing funds to pay for prior year obligations.

Recommendations

The Department's management should improve the process of filing disbursements related to the program for keeping and obtaining adequate evidence and information. This should be done before the payment obligations within the allowed period of availability of Federal funds and verification that payments made correspond to the correct award.

Management's Response

The Department acknowledged our finding and agreed with our recommendation.

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-50

Program: Child Support Enforcement Program – CFDA #93.563

Topic

The Department made a Federal disbursement for an unallowed activity.

Category

Test of Compliance 2002

Compliance Requirement

Allowable Activities

Criteria

According 45 CFR sections 304.20 through 304.22 allowable activities include the following four (4) activities:

1. Necessary expenditures incurred to support enforcement services and activities provided to individuals. These are the individuals from whom an assignment of support rights (as defined in 45 CFR section 301.1) is obtained (as defined in 45 CFR sections 304.20, 304.21, and 304.22).
2. Parent locator services for eligible individuals (as defined in 45 CFR sections 304.20(a)(2), 304.20(b) and, 302.35(c)).
3. Paternity and support services for eligible individuals (as defined in 45 CFR section 304.20(a)(3)).
4. Administration of the Child Support Enforcement Program including the establishment and administration of the State plan; the establishment of other agreements with other State and local agencies and private providers; purchase of equipment; and development of a cost allocation system and other systems necessary for fiscal and program accountability (as defined in 45 CFR sections 304.20(b)(1) and 304.24).

The costs of cooperative arrangements with appropriate courts and law enforcement officials in accordance with the requirements of 45 CFR section 302.34, including associated administration and short-term training of staff (as defined in 45 CFR section 304.21(a)) are also allowed.

Condition Found

In one (1) out of 18 cases examined for the test of compliance, we noted a disbursement made to pay for services benefiting the Elderly Support Enforcement Program.

Documents

02AP0415

Known Questioned Costs

\$60. However, we estimated the likely questioned costs to exceed \$10,000.

Underlying Cause

The Department's process to account for expenses is not effective.

Commonwealth of Puerto Rico
Department of the Family
IV. Findings – For the year ended June 30, 2002 (continued)

Finding Number: 02-50 (continued)

Program: Child Support Enforcement Program – CFDA #93.563

Effect

The Department may have expended funds for unallowable activities which could result in disallowed cost by Federal agency.

Recommendation

The Department should establish a process in order to determine allowable and unallowable activities according to the Federal agency.

Management's Response

This was an isolated case. The error was corrected by making an adjustment entry in the accounting records (JE# 124037714, dated March 11, 2003). The Administrator of ASUME issued a memo to the related personnel instructing them to ascertain this error is not repeated.

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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, rather than detecting problems after they occur.

Office of Executive Operations

The Office of Executive Operations (OEO) supports the Office of the Inspector General (OIG) by providing information resource management; systems security; and the coordination of budget, procurement, telecommunications, facilities and equipment, and human resources. In addition, this office is the focal point for the OIG's strategic planning function and the development and implementation of performance measures required by the *Government Performance and Results Act*. OEO is also responsible for performing internal reviews to ensure that OIG offices nationwide hold themselves to the same rigorous standards that we expect from SSA, as well as conducting investigations of OIG employees, when necessary. Finally, OEO administers OIG's public affairs, media, and interagency activities, coordinates responses to Congressional requests for information, and also communicates OIG's planned and current activities and their results to the Commissioner and Congress.

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.