
**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, 2003**

March 2007

A-77-07-00010

**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: March 30, 2007

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, 2003 (A-77-07-00010)

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, 2003. 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. The Department of Health and Human Services (HHS) desk review concluded that the audit met Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by Ernst & Young and the reviews performed by HHS. We conducted our review in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

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

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

The single audit reported that:

1. Accurate inventory records for acquisitions and physical location of property purchased with Federal funds were not maintained (Attachment A, pages 1 and 2). The corrective action plan indicated that an inventory control software program has been acquired and two employees have been assigned responsibility for inventory control (Attachment A, page 2).

The Office of the Inspector General (OIG) conducted an audit of Administrative Costs Claimed by the Puerto Rico DDS that covered the same time period as this single audit.¹ The OIG audit identified that the maintenance of inventory did not comply with SSA's Program Operations Manual System and recommended corrective action. Therefore, we are not making a recommendation related to this single audit finding.

2. Documentation to support disbursements for the DI program totaling \$207,302 was not maintained (Attachment A, pages 3 and 4). The corrective action plan indicated that the Finance Director issued instructions regarding document retention (Attachment A, page 4).

The OIG's audit reviewed disbursements based on a statistician's approved plan and found them to be supported by documentation. However, we believe a recommendation on this finding is warranted since the disbursements reviewed as part of this single audit are most likely different than the disbursements reviewed by the OIG.

3. Documentation to support payroll expenditures could not be located for four employees. In addition, payroll costs were charged to the incorrect account for two employees (Attachment A, pages 5 and 6). The corrective action plan indicated that a plan was developed by the Human Resources Department to address this finding (Attachment A, page 6).

The OIG's audit reviewed payroll costs claimed by the Puerto Rico DDS based on a statistician's approved plan and found the expenditures to be allowable and adequately supported. However, we believe a recommendation on this finding is warranted since the payroll expenditures reviewed as part of this single audit are most likely different than those reviewed by the OIG.

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

4. Information reported on the State Agency Report of Obligations for SSA Disability Programs (SSA-4513) did not reconcile with the DoF's records. Specifically, amounts reported on 11 SSA-4513 reports differed from DoF's accounting records. In addition, for 1 quarter, an incorrect indirect cost rate was included in the report, resulting in questioned cost of \$662,771 (Attachment A, pages 7 and 8). The DoF did not agree with this finding and stated that the reports were prepared accurately and timely (Attachment A, page 8).

The OIG's Administrative Cost Audit included SSA-4513 reconciliations of costs claimed by the Puerto Rico DDS and did not identify any problems. Furthermore, the OIG audit determined that the indirect costs claimed by the Puerto Rico DDS were allowable. Therefore, we are not making a recommendation related to this single audit finding.

We recommend SSA:

1. Determine if the \$207,302 charged to SSA was for allowable expenditures and collect any unallowable costs.
2. Remind the DDS to maintain adequate documentation to support expenditures and payroll costs charged to SSA programs.
3. Determine if unallowable payroll costs were charged to SSA and collect any unallowable costs.

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

- DoF has significant deficiencies (4) in its internal control structure, accounting and financial management systems, budgetary controls and financial reporting practices (Attachment B, pages 1 through 5).
- The lack of an overall control system resulted in inadequate controls over record retention and the filing of required documents (Attachment B, pages 6 and 7).
- DoF did not submit Federal reports (5) timely and accurately (Attachment B, pages 8 and 9).
- Payment vouchers were incomplete (7) (Attachment B, pages 10 and 11).

- Supporting documentation for employee files (6) was not retained for expenditures charged to Federal funds (Attachment B, pages 12, 13 and 14).
- Property and equipment management procedures (6) were not adequate (Attachment B, pages 15 and 16).
- DoF paid for obligations (2) after the allowed time period (Attachment B, pages 17 and 18).
- Documents to support compliance with procurement, suspension and debarment requirements (3) were not located (Attachment B, pages 19 and 20).
- DoF made Federal disbursements (2) for unallowed activities (Attachment B, pages 21 and 22).
- Effective controls were lacking (8) over the cash management area (Attachment B, page 23).

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

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr.", with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.

Attachments

Commonwealth of Puerto Rico
Department of the Family

III. Federal Awards Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-64

Program: Social Security - Disability Insurance – CFDA #96.001

Topic

The Department lacks accountability over property, plant and equipment acquired with Federal funds.

Category

Internal Control / Compliance

Compliance Requirement

Equipment and Real Property Management

Criteria

As per OMB Circular A-102, every two years, at a minimum, a physical inventory shall be conducted and the results shall be reconciled with property records to verify the existence, current utilization, and continued need for the equipment. Any discrepancies between quantities determined by the physical inspection with those shown in the accounting records shall be investigated to determine the causes of the differences. Property records shall be accurate. Property records shall include the following for each item:

1. A description of the equipment including manufacturer's serial numbers.
2. Identification number, such as the manufacturer's serial numbers.
3. Identification of the grant under which the recipient acquired the equipment.
4. The information needed to calculate the Federal share of the cost of the equipment.
5. Acquisition date and unit acquisition cost.
6. Location, use and condition of the equipment and the date the information was obtained.
7. All pertinent information on the ultimate transfer, replacement, or disposal of the equipment.

Condition Found

During our examination, we selected 43 property and equipment acquisitions and noted the following:

- For 26 items, totaling \$8,300, adequate evidence to support the purchase could not be provided.
- In one of the items referred above, acquired property of \$125 could not be physically located.

Known Questioned Cost

Below reporting threshold.

Commonwealth of Puerto Rico
Department of the Family

III. Federal Awards Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-64 (continued)

Program: Social Security - Disability Insurance – CFDA #96.001

Underlying Cause

The Department does not maintain accurate records for acquisitions, physical location and dispositions for 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 lack of inventory tracking for the equipment acquired with Federal funds could result in disallowed costs.

Recommendations

The Department's management should conduct periodic inventories and follow-up on inventory discrepancies. In addition, the Department's management should review all dispositions of property to ascertain appropriate valuation and reimbursement to Federal awarding agencies.

Management's Response

There is a specific regulation from the Department of the Treasury of Puerto Rico that every state agency must conduct an inventory every year. The PR-DDS office complied with this regulation. In the DDS office this process takes place usually around October or November every year.

To date, the DDS office has taken a series of action steps to assure that all equipment is recorded and accounted according to state and Federal regulations.

The following are the actions that have been taken:

- Acquired an inventory control software program (IntelliTrack). The PR-DDS has actualized the electronic equipment road map. We have a database that is linked to a label with a barcode and attached to the equipment or item pertaining to a particular user or employee.
- Designated two employees to be responsible for the inventory control. One for the electronic and communications equipment and one for the physical inventory.

Commonwealth of Puerto Rico
Department of the Family

III. Federal Awards Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-65

Program: Social Security - Disability Insurance – CFDA #96.001

Topic

The Department could not locate evidence to support disbursements.

Category

Compliance / Internal Control

Compliance Requirement

Allowable Costs / Cost Principles

Criteria

As per OMB Circular A-102, Subpart C, Section 20(2), grantees and sub-grantees must maintain records, which adequately identify the source and applications of funds provided for financially assisted activities. These records must contain information pertaining to the grant or sub-grant 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 compliance of the allowable costs and cost principles, we examined 43 vouchers for payments amounting to \$361,067 to test for compliance with allowable cost and cost principles requirements. Adequate supporting documentation was not provided for 18 items, totaling \$207,302.

Known Questioned Cost

\$207,302

Underlying Cause

The Department's process for maintaining accounting records to support expenditures is not effective.

Effect

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

Recommendation

The Department should also establish a record retention 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.

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Commonwealth of Puerto Rico
Department of the Family

III. Federal Awards Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-66

Program: Social Security - Disability Insurance – CFDA #96.001

Topic

The Department could not locate evidence to support disbursements related to payroll charged to the program.

Category

Compliance / Internal Control

Compliance Requirement

Activities Allowed or Unallowed

Allowable Costs / Cost Principles

Cash Management

Criteria

As per OMB Circular A-102, Subpart C, Section 20(2), grantees and sub-grantees must maintain records, which adequately identify the source and applications of funds provided for financially assisted activities. These records must contain information pertaining to the grant or sub-grant awards and authorizations, obligations, not 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 compliance of the allowable costs and cost principles, and allowable activities, we selected 43 employee records and its related payroll information to test for compliance with program requirements. We noted the following exceptions:

- For 4 employees, the Department could not provide us with adequate evidence supporting salary rate applicable to the employee.
- For 2 employees, the Federal program account to which payroll costs were charged were not the same for which employee worked.

Known Questioned Cost

Could not be determined.

Underlying Cause

The Department process for employee records and classification is not effective.

Commonwealth of Puerto Rico
Department of the Family

III. Federal Awards Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-66 (continued)

Program: Social Security - Disability Insurance – CFDA #96.001

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 improve the process of record retention of documents required for each employee that works for this program in order to ascertain that the documentation are retained for the time period required by applicable regulations and the provisions of laws.

Management's Response

A plan was developed by the Department's Human Resources Department addressing this finding, which was also noted during 2002 Single Audit.

Commonwealth of Puerto Rico
Department of the Family

III. Federal Awards Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-67

Program: Social Security - Disability Insurance – CFDA #96.001

Topic

Reconciliation of information reported in the Federal Status Report with the Department's records.

Category

Compliance / Internal Control

Compliance Requirement

Reporting

Criteria

As per OMB Circular A-102, Subpart C, Section 20(2), grantees and sub-grantees 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 sub-grant awards and authorizations, obligations, not 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

We noted the following while performing audit procedures:

1. All (11) reports prepared (SSA-4513) include differences in total amounts of expenses reported from the Department's accounting records.
2. A report prepared for the quarter ending December 31, 2002 (grant 0204RQDI00) includes an incorrect indirect cost rate.

Known Questioned Cost

\$662,771

Underlying Cause

The accountant in charge has not prepared its respective expense reports for the months above mentioned.

Commonwealth of Puerto Rico
Department of the Family

III. Federal Awards Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-67 (continued)

Program: Social Security - Disability Insurance – CFDA #96.001

Effect

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

Recommendations

The Department's management should develop a tracking system, which reminds staff of when are the due dates they should keep adequate evidence of the submittal of all Federal reports.

Management's Response

The Department does not agree with the finding.

The Department states that reports were prepared accurately and timely.

Auditor's Conclusion

Based on evidence provided by the Department, the exceptions mentioned in this finding were noted. Therefore, the finding remains as stated.

Commonwealth of Puerto Rico
Department of the Family

II. Financial Statement Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-01

Issue: 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 and Compliance

Compliance Requirement

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

Criteria

Auditees must prepare their financial statements in accordance with accounting principles generally accepted in the United States (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

II. Financial Statement Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-01 (continued)

Issue: 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.

Commonwealth of Puerto Rico
Department of the Family

II. Financial Statement Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-01 (continued)

Issue: Accounting and Finance Department

Criteria (continued)

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.

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.

Commonwealth of Puerto Rico
Department of the Family

II. Financial Statement Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-01 (continued)

Issue: Accounting and Finance Department

Condition Found (continued)

- 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.
- The Department was unable to locate supporting documentation for hundreds of items we selected for testing.

Known Questioned Costs

Not applicable.

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.

Commonwealth of Puerto Rico
Department of the Family

II. Financial Statement Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-01 (continued)

Issue: Accounting and Finance Department

Recommendation

- Supporting documentation should be maintained, organized and filed in a manner to facilitate retrieval.

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.

Management's Response

The Department does not agree with the finding. It is the Department's understanding that internal controls are adequate and that they comply with requirements established by the Puerto Rico Department of the Treasury. Furthermore, the Department understands that fiscal documents are organized and audited in a manner that, when required, they are available within reasonable time.

The Department's Budget Office, together with the Disability Determination Program, keeps necessary controls of Federal funds and prepares required reports.

The Department is in the process of developing a Procedures Manual for the Finance Department, which will establish the procedures to be followed by each division of such department.

Auditor's Conclusion

Based on the audit procedures over internal controls and evidenced by the multiple exceptions noted throughout the different Agencies and Programs, the finding remains as stated.

Commonwealth of Puerto Rico
Department of the Family

II. Financial Statement Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-02

Issue: Accounting and Finance Department

Topic

The Department does not have an effective record retention system.

Category

Internal Control and Compliance

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 were not located or provided to us as noted throughout this report.

Known Questioned Costs

Not applicable.

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

II. Financial Statement Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-02 (continued)

Issue: 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

The Department does not agree with the finding. It is the Department's understanding that its archiving system is effective and documents are kept identified in numerical order, category, and fiscal year. Furthermore, retention periods are complied with, as defined by the Puerto Rico Department of the Treasury.

Auditor's Conclusion

Based on the time elapsed between the requisition of information to be inspected and its availability as well as the Department's inability to provide supporting documentation for several hundred documents selected by us for testing, which is evidenced in the timing of the audit and issuance of this report, the finding remains as stated.

Commonwealth of Puerto Rico
Department of the Family

II. Financial Statement Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-03

Issue: 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 and 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.

Condition Found

The Department did not comply with the required submission date of the Single Audit for the fiscal year ended June 30, 2003. The due date for this report was no later than March 31, 2004.

Known Questioned Costs

Not applicable.

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.

Commonwealth of Puerto Rico
Department of the Family

II. Financial Statement Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-03 (continued)

Issue: Accounting and Finance Department

Management's Response

The Department does not agree with the finding. The Department states that subsidiary records are updated and agreed with the Puerto Rico Department of the Treasury when requesting information to perform the audit and information is delivered upon its request.

Auditor's Conclusion

Based on the date this Single Audit Report is being issued, the finding remains as stated.

Commonwealth of Puerto Rico
Department of the Family

III. Federal Awards Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-04

Program: Nutrition Assistance for Puerto Rico – CFDA #10.566

Topic

Payment vouchers were incomplete

Category

Compliance

Compliance Requirement

Activities Allowed or Unallowed

Allowable Costs / Cost Principles

Criteria

OMB Circular A-102 Subpart C, Section 20(2), requires that 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 documents as cancelled invoices, pre-audited invoices, paid bills, payrolls and attendance records, etc. Except as otherwise provided, records must be retained for three years.

Condition Found

In order to test compliance with the allowable activities, we examined 18 vouchers amounting to \$1,329,472.19 and evaluated the procedures implemented to comply with the regulations of the Federal Programs for the fiscal year ended June 30, 2003. We noted a lack of sufficient supporting documentation for 5 out of 18 items selected, totaling \$214,704.

Known Questioned Costs

\$214,704

Underlying Cause

The Department's process to ascertain that supporting documentation is obtained and maintained is not effective.

Effect

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

Recommendation

The Department should ascertain that adequate evidence and information exist to support disbursements. The Department should also establish a record retention system to ascertain that accounting records and documents are retained for the time period required by applicable regulations and the provisions of law, contracts or grant agreements of the program.

Commonwealth of Puerto Rico
Department of the Family

III. Federal Awards Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-04 (continued)

Program: Nutrition Assistance for Puerto Rico – CFDA #10.566

Management's Response

The Department does not agree with the finding. The Department states that, as response for previous audits, the Administration for the Social and Economic Development of the Family (ADSEF) had determined that, starting on January 2003, a Central Archive was to be created. As required by the Puerto Rico Department of the Treasury and auditors, ADSEF is responsible of the maintenance and custody of payment vouchers and other documents, vital for such administration. Difficulties to recruit the appropriate personnel to perform these basics, delayed the implementation of the Central Archive. On January 2004, a portion of the needed personnel was hired and tasks to create the Central Archive begun. Such Central Archive is operational.

Since Central Archive started operations, documents requested by auditors are localized and available. The Department states that a list of requested information and available evidence was compiled. Furthermore, the Department states that ADSEF personnel informed that a significant ~~portion of evidence was available in its Bank Reconciliations Department and that it was~~ necessary to select a sample as information was too extensive, but, as per the Department, the sample was not selected, nor the evidence was reviewed.

Auditor's Conclusion

As evidenced in several findings throughout this report and although audit procedures were performed, certain evidence could not be located by the Department. The audit was performed over an extensive timeframe, yet some documents were never provided for inspection, including those documents mentioned in this finding. Based on the above, the finding remains as stated.

Commonwealth of Puerto Rico
Department of the Family

III. Federal Awards Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-05

Program: Nutrition Assistance for Puerto Rico – CFDA #10.566

Topic

Employee records were missing documentation.

Category

Compliance / Internal Control

Compliance Requirement

Activities Allowed or Unallowed

Allowable Costs / Cost Principles

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, 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. In addition, the records must contain the required information according to Article 15 of Personnel Regulations.

Condition Found

In testing the compliance with allowable costs, cost principles and allowable activities, we selected 43 employees' records and their related payroll information to evaluate the procedures implemented to comply with the regulations of the Federal Programs and Internal Controls for the fiscal year ended June 30, 2003. We noted the following exemptions:

- For 8 of the employees selected, the Department could not provide us with adequate evidence supporting salary rate applicable to the employee, totaling to \$13,117 monthly.
- For 17 of the employees selected, the Department could not provide us with adequate evidence of employee job description to determine whether the payroll charge to this particular program was appropriate, totaling to \$28,728 monthly.

Known Questioned Costs

\$41,845 monthly

Commonwealth of Puerto Rico
Department of the Family

III. Federal Awards Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-05 (continued)

Program: Nutrition Assistance for Puerto Rico – CFDA #10.566

Underlying Cause

The Department's process to ascertain that employees' files include all the required documentation 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 ascertain that adequate evidence and information exist to support payroll costs allocated to specific programs are appropriate. The Department should also establish a record retention system to ascertain that accounting records and documents are retained for the time period required by applicable regulations and the provisions of law, contracts or grant ~~agreements of the program.~~

Management's Response

The Department has checked all papers, memorandums, rules and locals and Federal regulations to determine which documents are required from the new employee once the employee has been hired. The Department sent instructions with the forms required to hire new employees to the Regional Director and the Human Resources Officials. All new appointments have a checklist that verifies that all documents were completed and returned to the Main Human Resources Office. The Recruitment and Selection Division verifies the packets of documents to ensure they are completed and, upon finding any deficiency, a request is sent to Regional Directors asking for the missing information and/or documents. Incomplete documents are not sent to the Payroll Division until all deficiencies have been corrected. Once the files have been completed and verified, they are sent to the Appointments and Change Division to be input and registered in the RHUM system.

The Social Economics Administration (ADSEF) has been consistently compliant with audit guidelines set by the auditors since 2003, when these instructions were given.

The Human Resources Office keeps all files and document of inactive personnel during a period of six years, in accordance with the regulation of the General Service Administration. Files completed previously to the date for which the Department adopted the guideline are subject to be audited. The amount of files covered in the period account to over 3,600 files for active employees. This office does not have the personnel nor the resources required to complete this task and all daily assignments.

Commonwealth of Puerto Rico
Department of the Family

III. Federal Awards Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-05 (continued)

Program: Nutrition Assistance for Puerto Rico – CFDA #10.566

Management's Response

The auditor required a number of documents that were not used previously. Therefore, these documents are not part of the files that have been completed previous to this date because these documents were not required. Programs like TANF and NAP have been in place for the government for over 30 years. At the time these files were created, these documents were not required. Therefore, when we asked for the documents these files were not in compliance

At this moment, all appointments, promotions and any other human resources transactions have a checklist, to ensure that all required document has been filed inside the employee file.

Commonwealth of Puerto Rico
Department of the Family

III. Federal Awards Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-06

Program: Nutrition Assistance for Puerto Rico – CFDA #10.566

Topic

The Department did not keep adequate property and equipment subsidiary records for property and equipment purchased with Federal funds.

Category

Compliance and Internal Control

Compliance Requirement

Equipment and Real Property Management

Criteria

OBM Circular A-102 requires that state and local governments receiving Federal awards establish and maintain internal control procedures designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

OMB Circular A-87 requires that property and equipment purchased with Federal funds be properly accounted for and properly safeguarded.

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, NAP program regulations require that, every two years, at a minimum, a physical inventory shall be conducted and the results shall be reconciled with the property records to verify the existence, current utilization, and continued need for the equipment. Any discrepancies between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the differences.

Condition Found

We selected four property and equipment purchases to test totaling \$33,620 which represents approximately 62% of all property and equipment purchases for the year under audit.

The Department was unable to provide sufficient evidence for three of the items selected totaling \$30,254.

Commonwealth of Puerto Rico
Department of the Family

III. Federal Awards Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-06 (continued)

Program: Nutrition Assistance for Puerto Rico – CFDA #10.566

Known Questioned Costs
\$30,254

Underlying Cause

The Department's internal controls over property and equipment purchased with Federal funds are not effective and the entity also did not perform the required physical inventory count required by OMB Circular A-102.

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 lack of proper tracking and inventory controls for equipment acquired with Federal funds could result in disallowed costs.

Recommendation

The Department should implement effective 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

A private company named NESTLSLEP is creating a general system to keep the proper Property and Equipment subsidiary for the entire Department. This will allow us to keep internal control of equipment at the Administration for Socioeconomic Development for Families throughout the entire island.

In addition, we are handing in receipts of property in use to each employee. We are also orienting them as to their responsibility with such equipment.

Commonwealth of Puerto Rico
Department of the Family

III. Federal Awards Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-18

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 Federal 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 selected all cash disbursements of Federal funds during the year under audit, totaling \$3,804,223, and noted disbursements for \$2,410,184 were made during the year under audit, from grants for which the period of availability of funds was closed before July 1, 2002.

Known Questioned Costs

\$2,410,184

Underlying Cause

The Department's process for ensuring grant expenditures are adequately supported and within the period of availability is not effective.

Effect

This could result in disallowed expenditures and/or loss of future funding.

Recommendation

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. Also, if funds are not used by the end of the period of availability, extensions/waivers should be obtained to sue the funds beyond such period.

Commonwealth of Puerto Rico
Department of the Family

III. Federal Awards Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-18 (continued)

Program: Promoting Safe and Stable Families – CFDA # 93.556

Management's Response

The administration did the transaction to acquire the archives from August 2004. The purchase order of these equipments had been cancelled in two occasions. First, because CEAT did not had available the equipment. Second, the management suspended the process since the specifications of the archives changed and the amount of 200 units was increased to 306.

In February 2005 the new documents were sent to the Purchases Office Department of Family to the Auction Meeting, so it can be evaluated and approved, then be assigned to the provider so the purchase process can begin. We expect to receive them in June 2005.

The Finance Division of the ADFAN reorganized the file system to establish a contract process. There is a person in charge of maintaining all the files to allow accessibility for the evaluation of documents filed. Those documents are kept for 5 to 6 years, according to the law.

Also, the Finance Division custody required documentation as for example: Registered Signature, Register of Suppliers and others; of all contracts for a period of 5 to 6 years.

The personnel of the Federal Agency oriented the External Resources Unit, indicating: that the agency can make use of the available funds to reclassify the incurred expenses during this period award; these expenses had been paid previously against the State Funds.

Commonwealth of Puerto Rico
Department of the Family

III. Federal Awards Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-21

Program: Promoting Safe and Stable Families – CFDA #93.556

Topic

The Department did not provide documents supporting the compliance with Procurement, Suspension and Debarment requirements.

Category

Compliance / Internal Control

Compliance Requirement

Procurement, Suspension and Debarment

Criteria

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

In addition, as stated in the contract between the Department and the sub-recipient entity, before any Federal funds are disbursed; there must be a signed contract between the sub-recipient and the Department, an approved budget, an accounting system certification, a list of all board members, a certified bank account, a certified local contribution, a fidelity bond, a performance bond, registered signatures and end of year closing report. In addition, those contracts must comply with the regulations established for granting contracts to corporations and municipal entities.

Condition Found

In testing Procurement, Suspension and Debarment requirements, we selected 25 vendors for testing. The Department did not provide us with any of the information needed for us to be able to perform our test.

Known Questioned Costs

Unknown

Underlying Cause

There is no adequate control over records.

Effect

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

Department of the Family

III. Federal Awards Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-21 (continued)

Program: Promoting Safe and Stable Families – CFDA #93.556

Recommendation

The Department's management should ascertain that adequate source documents exist 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 retention system to ascertain that accounting records and documents 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

The Legal Division will revise the records of the active contracts to update the information required. Also they will evaluate the organization of the files of the required documents for the contract to establish an order in the file of the contract. The proposed order will be: the proposal, the required documents on the order of the checklist, the contract and its emendations in case that they exist.

The Legal Division established since March 2004 a file system that provided more control and organization of the documents included in the contracts. All the contracts are identified by the year (when the contract was granted) and a sequence number. The file included the contract signed, proposal and justification documents. The PR ELA law all contracts must be filed for a period of six years.

The administration made the transactions to acquire the archives on August 2004. The purchase order of those equipments had been cancelled in two occasions. First, because one of the suppliers (CEAT, a supplier that has preference as established in PR law) did not had available the equipment. Second, the specifications of the archives changed and the amount of 200 units was increased to 306.

In February 2005 the new documents were sent to the Purchases Office Department of Family to the Auction Meeting to be evaluated and approved, then be assigned to the provider so the purchase process can begin. We expect to receive them in June 2005.

The Finance Division of the ADFAN reorganized the file system to establish a contract process. There is a person in charge of maintaining all the files to allow accessibility for the evaluation of documents filed. Those documents are kept for 5 to 6 years, according to the law.

Also, the Finance Division custody required documentation as for example: Registered Signature, Register of Suppliers and others; of all contracts for a period of 5 to 6 years.

Commonwealth of Puerto Rico
Department of the Family

III. Federal Awards Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-31

Program: Child Support Enforcement Program – CFDA #93.563

Topic

The Department made a Federal disbursement for an unallowed activity.

Category

Internal Control/Compliance

Compliance Requirement

Activities Allowed or Unallowed

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 25 disbursements examined for the test of controls, we noted a disbursement made to buy a frame for a poster celebrating the week of “Etica Gubernamental” (Governmental Ethics) which is not allowable per the program.

Known Questioned Costs

Less than \$10,000.

Underlying Cause

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

Commonwealth of Puerto Rico
Department of the Family

III. Federal Awards Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-31 (continued)

Program: Child Support Enforcement Program – CFDA #93.563

Effect

The Department 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

The Department's agency in charge of this program, Administración para el Sustento de Menores (ASUME), will inform Budget and Finance Department personnel according to CRF 45, Sections 304.2 through 304.22 and Title IV-D plan (allowed and unallowed activities).

Commonwealth of Puerto Rico
Department of the Family

III. Federal Awards Findings – For the Year Ended June 30, 2003 (continued)

Finding Number: 03-32

Program: Child Support Enforcement Program – CFDA #93.563

Topic

Duplicate amount requested.

Category

Compliance/Internal Control

Compliance Requirement

Cash Management

Criteria

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

Condition Found

An amount requested for reimbursement was duplicated.

Known Questioned Costs

Less than \$10,000.

Underlying Cause

The Department's controls over cash management are not effective.

Effect

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

Recommendation

The Department should establish procedures to control cash requisitions to avoid duplications.

Management's Response

Responsibility controls were established, the expenses from Federal funds are monitored, the petition of the funds and its casual accounting entries.

Overview of the Office of the Inspector General

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

Office of Audit

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

Office of Investigations

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

Office of the Chief Counsel to the Inspector General

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

Office of Resource Management

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