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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**SINGLE AUDIT OF THE  
COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF THE FAMILY  
FOR THE FISCAL YEAR  
ENDED JUNE 30, 2006**

**August 2009**

**A-77-09-00011**

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**MANAGEMENT  
ADVISORY REPORT**

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## **Mission**

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

## **Authority**

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

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

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

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

## **Vision**

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



## SOCIAL SECURITY

### MEMORANDUM

Date: August 5, 2009

Refer To:

To: Candace Skurnik  
Director  
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the Commonwealth of Puerto Rico, Department of the Family, for the Fiscal Year Ended June 30, 2006 (A-77-09-00011)

This report presents the Social Security Administration's (SSA) portion of the single audit of the Commonwealth of Puerto Rico, Department of the Family (PRDF), for the Fiscal Year ended June 30, 2006. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

The audit firm Torres Llompart, Sanchez Ruiz L.L.P., performed the audit. We have not received the results of the desk review conducted by the U.S. Department of Agriculture (USDA). We will notify you when we receive the results if USDA determines the audit did not meet Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by Torres Llompart, Sanchez Ruiz L.L.P., and the reviews performed by USDA. We conducted our review in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.<sup>1</sup>

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

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

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

The single audit reported PRDF:

1. Did not submit the single audit report to OMB's Federal Audit Clearinghouse within 9 months after the fiscal year-end (Attachment A, Page 1). The corrective action plan indicated PRDF will establish reliable and effective processes to comply with the reporting requirements.<sup>2</sup>
2. Had deficient accounting policies, procedures, and financial reporting practices including a lack of a self-balancing set of accounts, and inappropriate and/or incomplete monthly and year-end closing procedures (Attachment A, Pages 2 through 4). The corrective action plan indicated that a customized application system was being developed that will provide accurate and complete financial and budgetary information.
3. Had an inadequate filing system that did not permit the prompt retrieval of payment and other documents requested (Attachment A, Pages 5 and 6). The corrective action plan indicated a Document Control System was developed that includes a Central File Division to maintain the supporting documents of all fiscal transactions.
4. Had multiple documents missing from its personnel files, and was not properly monitoring payroll transactions (Attachment A, Pages 7 through 10). The corrective action plan indicated that a taskforce was organized to review 3,000 personnel files to verify full compliance with all State regulations.
5. Did not have an effective property and equipment system (Attachment A, Pages 11 through 13). The corrective action plan indicated that PRDF was developing a customized automated Property Management System.
6. Charged expenditures to SSA for obligations that were incurred after the end of the period of availability, resulting in questioned costs totaling \$559,157 (Attachment A, Pages 14 through 17). The corrective action plan indicated that PRDF will implement a mechanized application of budget control and financial transaction's register for Federal and State funds that will facilitate fiscal compliance with Federal regulations.

We recommend SSA ensure PRDF:

1. Established reliable and effective processes that will allow it to comply with the requirement that the single audit report be submitted to the Federal Audit Clearinghouse within nine months after the fiscal year-end.
2. Developed adequate accounting policies, procedures and reporting practices.

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<sup>2</sup> The corrective action plans contained within the Single Audit of the Commonwealth of Puerto Rico, Department of the Family, for the Fiscal Year Ended June 30, 2006, were of very low print quality. Therefore, the corrective action plans are not included in this report. By request, we will provide a copy of the single audit report to SSA.

3. Established a filing system that allows the prompt retrieval of Puerto Rico DDS payment and other documents.
4. Corrected the personnel file deficiencies for Puerto Rico DDS staff.
5. Established adequate procedures to monitor payroll transactions.
6. Developed an equipment and property inventory system for the Puerto Rico DDS that complies with SSA policy.
7. Established a system to properly account for SSA funds provided to the Puerto Rico DDS.

We also recommend that SSA:

8. Determine whether the obligations recorded after the period of availability resulted in unallowable charges and if so, request a refund of the unallowable costs.

The single audit also disclosed the following findings that may impact the DDS' operations although they are not specifically identified to SSA. I am bringing these matters to your attention as they represent potentially serious service delivery and financial control problems for the Agency.

- PRDF's recordkeeping system did not provide for the immediate identification of payment documents and the system lacked adequate internal controls (Attachment B, Pages 1 through 9).
- PRDF did not have adequate procedures and controls over its cash management program (Attachment B, Pages 10 through 14).

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

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Patrick P. O'Carroll, Jr.

Attachments

**FINDING NO. 06-01 SINGLE AUDIT**

**Federal programs**

All Federal Financial Assistance Programs

**Category**

Compliance

**Compliance requirement**

Special tests and provisions

**Condition found**

The Single Audit Report for the year ended June 30, 2006 was not submitted to the Federal Clearinghouse within nine (9) months after the fiscal year-end.

This condition occurred because the accounting records were not closed in time to permit the performance of the audit and the issuance of the reports within the required period established by the regulations. In addition, the PRDF did not contract to have its audit performed on a timely basis.

**Criteria**

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

**Effect**

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

**Questioned costs**

Could not be determined

**Recommendation**

The Accounting and Finance Division of the PRDF shall establish reliable and effective processes to enable compliance with timely monthly closing schedules and improve its year-end closing procedures to allow for the timely performance of the Single Audits. This will enable the PRDF to comply with the reporting requirements established by applicable regulations.

**FINDING NO. 06-02      ACCOUNTING RECORDS**

**Federal programs**

All Federal Financial Assistance Programs

**Category**

Compliance / Internal control

**Compliance requirement**

Special tests and provisions

**Condition found**

During our audit procedures for the year ended June 30, 2006, we noted the following deficiencies related to the accounting policies, procedures, and financial reporting practices of the PRDF:

- The lack of a self-balancing set of accounts for each fund to record cash and other financial resources, together with the related liabilities, residual equities or balances, and any related changes therein. As discussed in other findings within this report, the accounts are not segregated sufficiently to cover a specific activity or objective in accordance with special regulations, restrictions, or limitations.
- The PRDF has inappropriate and/or incomplete cut-off procedures, as well as incomplete month-end and year-end closing procedures. Many transactions are posted months after the applicable closing, with a retroactive effect. In this regard, a significant amount of journal vouchers is processed.
- The PRDF has inappropriate and/or incomplete budgeting control between grants awards distribution and programmatic activities allocations. In various federal programs we were unable to verify its compliance with certain percentages limitations as required by applicable regulations.

**FINDING NO. 06-02      ACCOUNTING RECORDS (CONTINUED)**

**Criteria**

45 CFR 92.20 (a) and (b) (3) establish 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 - (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

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

**Effect**

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

**Questioned costs**

Could not be determined

**Recommendations**

The PRDF shall review its accounting practices and policies to provide for an accurate reporting financial system. This will require a sophisticated plan in coordination with the Puerto Rico Department of the Treasury (PRDT) for the implementation of an accounting and financial management system that permits the preparation of financial reports required by the different oversight entities including the need to supply information to the Commonwealth of Puerto Rico for its government wide reporting.

**Recommendations (continued)**

This plan should:

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

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

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

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

**FINDING NO. 06-03      FILING SYSTEM**

**Federal programs**

All Federal Financial Assistance Programs

**Category**

Internal control

**Compliance requirement**

Special tests and provisions

**Condition found**

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

**Criteria**

45 CFR 92.20 (a) and (b) (3) establish that fiscal control and accounting procedures of the state must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that these funds have not been used in violation of the restrictions and prohibitions of applicable statutes. It also states that an effective control and accountability must be maintained for all grants and sub grantees cash, real and personal property, and other assets. Grantees and sub grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

**Effect**

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

**Questioned costs**

Could not be determined

**Recommendations**

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

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

**FINDING NO. 06-07 PERSONNEL FILES AND PAYROLL TEST**

**Federal programs**

CFDA 10.566	Nutrition Assistance Program for Puerto Rico
CFDA 93.558	Temporary Assistance for Needy Families
CFDA 93.563	Child Support Enforcement
CFDA 93.575	Child Care and Development Block Grant
CFDA 93.600	Head Start
CFDA 93.645	Child Welfare Services – State Grant
CFDA 93.667	Social Services Block Grant
CFDA 96.001	Social Security – Disability Insurance

**Category**

Compliance / Internal control

**Compliance requirements**

Activities allowed or unallowed  
Allowable costs / cost principles

**Condition found**

During the fiscal year ended June 30, 2006, the PRDF had approximately 6,300 employees compensated with State funds and 3,200 compensated with Federal funds. Total payroll and payroll related expenditures paid for the year ended June 30, 2006 with State and Federal funds amounted to \$203,710,642 and \$92,924,840, respectively (representing a total annual payroll of \$296,635,482). To test PRDF's compliance with the provisions of Attachment B, Section 11 of the OMB Circular A-87 and to determine if charges to federal awards for payroll and payroll related expenditures were allowable, we selected for test a random sample of 85 employees. The sample was composed of 40 employees compensated with state funds and 45 with federal funds, for an estimated annual payroll \$1,286,828 and \$1,124,669, respectively (representing a total annual payroll of \$2,411,497). For each employee selected we performed the following tests:

- a) A personnel file test to determine if the employee's employment conformed to state employment laws and regulations meeting federal merit system; and

**Condition found (continued)**

- b) A payroll test to determine if: a) the payroll and payroll related charges were supported by personnel activity reports, and time and attendance records; and b) the employee's total wage or salary was reasonable and consistent with wages or salaries paid for similar work in other activities of the PRDF.

The above procedures were also designed to test compensation for personnel services. Our examination revealed the following conditions:

**Personnel files**

The following documentation was missing from the employees' file:

Documents Missing	Total Files Examined	Document Not Found	Percentage
Personnel History (DEFAM-01)	85	4	4.71%
Health Cert. (DEFAM-12)	85	26	30.59%
Criminal Record Certificate	85	4	4.71%
Academic Preparation Verification	85	3	3.53%
Copy of SS Card	85	8	9.41%
Copy of ID with Photo	85	32	37.65%
Annual Evaluation	85	51	60.00%
Destitution Registry (ORHELA)	85	16	18.82%
Corruption Registry (PRP)	85	4	4.71%
Employment Eligibility verification I-9 Form	85	6	7.06%
Drug Free Test	85	16	18.82%
Child Support Certification (ASM-5)	85	13	15.29%
Certification of Tax return filed (form 330-05)	85	3	3.53%
PR Treasury Department debt certificate	85	13	15.29%
Asume Debt Certificate	85	15	17.65%
CRIM Debt Certificate	85	15	17.65%
Withholding Form (498 R-4)	85	19	22.35%
Certification of Double Compensation	85	21	24.71%
Professional License	85	1	1.18%
Professional Association Registration Receipt	85	5	5.88%
Commitment and Certification of Confidentiality of Information (OA-2001-03)	85	1	1.18%
Certification of received documents	85	29	34.12%
Certification of Requirements Verification (DEFAM-44)	85	3	3.53%
Appointment and Fidelity Pledge	85	1	1.18%
Job Description (DEFAM-10)	85	29	34.12%
Employment application and/or Resume	85	28	32.94%

**FINDING NO. 06-07 PERSONNEL FILES AND PAYROLL TEST (CONTINUED)**

**Personnel files (continued)**

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

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

Above conditions are indicative that established procedures are not being followed and consequently, documents required for recruiting purposes have not been always obtained or properly filed.

**Payroll**

During the payroll test for the year ended June 30, 2006, we traced the payroll vouchers to the financial data provided by the PRDT and noted the following differences:

<u>Voucher No.</u>	<u>Payroll Period</u>	<u>Amount per Financial Data</u>	<u>Voucher Amount</u>	<u>Difference</u>
0000685431	01/31/06	<u>\$3,739,558</u>	<u>\$3,665,633</u>	<u>\$73,925</u>
0000689878	02/15/06	<u>\$3,601,210</u>	<u>\$3,534,873</u>	<u>\$66,337</u>
0000701165	03/15/06	<u>\$3,800,340</u>	<u>\$3,734,930</u>	<u>\$65,410</u>

The primary cause of improper salary charges is due to PRDF's failure to monitor payroll transactions.

**Criteria**

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

**Criteria (continued)**

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

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

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

**Effect**

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

**Questioned costs**

Could not be determined

**Recommendations**

The PRDF shall develop a comprehensive plan to ensure that: a) all the personnel files are on hand and complete; and b) all personnel required reports are prepared and processed immediately.

**FINDING NO. 06-11      EQUIPMENT MANAGEMENT**

**Federal programs**

All Federal Financial Assistance Programs

**Category**

Compliance / Internal control

**Compliance requirement**

Equipment and real estate property management

**Condition found**

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

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

**Condition found (continued)**

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

**Criteria**

Chapter VII and Chapter K, Section (B) (2) of the State's Property Manual ("Manual de Contabilidad de la Propiedad"), establish that equipment internal records of each State Agency should include the following: (1) description of the property; (2) a serial number or other identification number; (3) the acquisition date and cost of the property; (4) source of funds for the purchase of property; (5) the location of the property; and (6) any ultimate disposition data including the date of disposal and sale price of the property. Fixed assets records should be complete and accurate regarding this information.

Chapter IX, Section (B) of the State's Property Manual and Section 19 of the State's Property Rules and Regulations ("Reglamento #11: Control y Contabilidad de la Propiedad") establish that State agencies shall take a physical inventory on an annual basis of all the property under their jurisdiction. Once the inventory count is completed, an officer not in charge of the inventory procedures should compare the results with the property records. Differences should be reconciled and property records adjusted, as applicable.

**FINDING NO. 06-11      EQUIPMENT MANAGEMENT (CONTINUED)**

**Criteria (continued)**

45 CFR Section 92.32 (b) establishes that a state will use, manage, and dispose of equipment acquired under a grant by the state in accordance with state laws and procedures.

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

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

**Effect**

The PRDF is exposed to the risk of possible unauthorized use and disposition of equipment due to the lack of internal controls and adequate property and equipment records. The possible misappropriation of the equipment could be significant because the PRDF owns significant types and amounts of equipment. Also, the lack of adequate controls over property and equipment exposes the PRDF to cost disallowances.

**Questioned costs**

Could not be determined

**Recommendations**

The PRDF shall establish adequate controls and procedures to be followed by the Property Division. New policies and procedures implemented must address all requirements established by state and federal regulations on property management.

Property records shall include the required information for equipment purchased with federal funds to improve accountability, control and to detect possible loss or theft of property. All property records shall be thoroughly reviewed to make sure that all information included in them is accurate and pertinent.

**Recommendations (continued)**

All property and equipment shall have a property tag number that agrees with the identification number in the property records. Additionally, a physical inventory of all equipment and property shall be performed at least annually in order to reconcile it with the property records and to verify that property and equipment is being properly safeguarded and used solely for the authorized purposes.

Moreover, resources shall be allocated to the Property Division in order to implement a new system that would allow for the proper recording and safeguarding of assets. Personnel in charge of these tasks shall be adequately trained on all state and federal regulations related to the acquisition and management of property.

**FINDING NO. 06-17 PERIOD OF AVAILABILITY OF FEDERAL FUNDS**

**Federal programs**

CFDA 10.566	Nutrition Assistance Program for Puerto Rico
CFDA 93.556	Promoting Safe and Stable Families
CFDA 93.558	Temporary Assistance for Needy Families
CFDA 93.560	Family Support Payments
CFDA 93.569	Community Services Block Grant
CFDA 93.600	Head Start
CFDA 96.001	Social Security - Disability Insurance

**Category**

Compliance/Internal control

**Compliance requirement**

Period of availability of federal funds

**Condition found**

To test compliance with the period of availability of federal funds requirement, we obtained and reviewed the grant awards of the major programs of the PRDF to identify the awards (and its deadline dates) expiring during the fiscal year ended June 30, 2006. For each award, we identified the population of transactions recorded after the period of availability and tested a sample to verify whether the underlying obligations occurred within the period of availability and that the liquidation (payment) was made within the allowed time period. After performing these procedures, we noted the following:

- a) The PRDF recorded transactions after the end of the period of availability which increased the expenditures of federal programs by \$112,047,434, distributed as follows:

**Condition found (continued)**

<u>CFDA No.</u>	<u>Program</u>	<u>Items Tested</u>	<u>Sample Dollar Amount</u>	<u>Amount Recorded</u>		<u>Percentage of Coverage</u>
				<u>Period of Availability</u>	<u>After the End of the</u>	
10.566	Nutrition Assistance Program for Puerto Rico	18	\$ 42,289,306	\$ 60,748,216		69.6%
93.556	Promoting Safe and Stable Families	7	4,243,551	4,657,216		91.1%
93.558	Temporary Assistance for Needy Families	21	4,071,987	6,799,358		59.9%
93.560	Family Support Payments	6	772,263	830,281		93.0%
93.563	Child Support Enforcement	10	11,175,957	12,861,188		86.9%
93.569	Community Services Block Grant	10	4,966,023	5,202,246		95.5%
93.575	Child Care Development Block Grant	4	1,996,764	2,029,463		98.4%
93.600	Head Start	20	9,952,550	14,021,976		71.0%
93.645	Child Welfare Services - State Grant	1	2,063,314	2,135,039		96.6%
96.001	Social Security - Disability Insurance	22	832,607	2,762,451		30.1%
		<u>119</u>	<u>\$ 82,364,322</u>	<u>\$ 112,047,434</u>		<u>73.5%</u>

- b) The PRDF recorded disbursements for obligations incurred after the period of availability in the amount of \$978,512 as follows:

<u>CFDA No.</u>	<u>Program</u>	<u>Amount</u>
93.556	Promoting Safe and Stable Families	\$ 1,505
93.558	Temporary Assistance for Needy Families	22,696
93.569	Community Services Block Grant	395,154
96.001	Social Security - Disability Insurance	<u>559,157</u>
		<u>\$978,512</u>

**FINDING NO. 06-17 PERIOD OF AVAILABILITY OF FEDERAL FUNDS  
(CONTINUED)**

**Condition found (continued)**

- c) The PRDF liquidated obligations after the grant awards' deadline dates. Such obligations amounted to \$541,679, as follows:

<u>CFDA No.</u>	<u>Program</u>	<u>Amount</u>
93.560	Family Support Payments	\$ 9,550
93.569	Community Services Block Grant	15,000
93.600	Head Start	<u>517,129</u>
		<u>\$541,679</u>

- d) The PRDF did not provide the supporting documents for disbursements recorded after the period of availability in the amount of \$3,049,341 as follows:

<u>CFDA No.</u>	<u>Program</u>	<u>Amount</u>
10.566	Nutrition Assistance Program for Puerto Rico	\$ 51,614
93.556	Promoting Safe and Stable Families	2,563,436
93.569	Community Services Block Grant	<u>434,291</u>
		<u>\$3,049,341</u>

**Criteria**

45 CFR 92.23 (a) establishes that where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

45 CFR 92.23 (b) establishes that a grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee.

**Criteria (continued)**

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

**Effect**

The PRDF is exposed to penalties and sanctions from the grantor due to noncompliance with this requirement, including returning to the grantor the amount of funds involved or denied a reimbursement.

**Questioned costs**

\$ 51,614	CFDA 10.566	Nutrition Assistance Program for Puerto Rico
2,564,941	CFDA 93.556	Promoting Safe and Stable Families
22,696	CFDA 93.558	Temporary Assistance for Needy Families
9,550	CFDA 93.560	Family Support Payments
844,445	CFDA 93.569	Community Services Block Grant
517,129	CFDA 93.600	Head Start
<u>559,157</u>	CFDA 96.001	Social Security - Disability Insurance

**\$4,569,532**

**Recommendations**

To provide reasonable assurance that federal funds are used only during the authorized period of availability, the PRDF shall establish formal policies and procedures to ascertain:

- a) The budgetary process considers period of availability as to obligation and disbursement of federal funds and provide for the identification and communication of cut-off requirements;

**FINDING NO. 06-05 DISBURSEMENT TESTS**

**Federal programs**

CFDA 10.566 Nutrition Assistance Program for Puerto Rico  
 CFDA 93.556 Promoting Safe and Stable Families  
 CFDA 93.558 Temporary Assistance for Needy Families  
 CFDA 93.569 Community Services Block Grant  
 CFDA 93.575 Child Care Development Block Grant  
 CFDA 93.600 Head Start  
  
 CFDA 93.667 Social Services Block Grant

**Category**

Compliance / Internal control

**Compliance requirements**

Activities allowed or unallowed  
 Allowable costs / cost principles  
 Procurement and suspension and debarment

**Condition found**

In testing compliance and internal controls over allowability and procurement and suspension and debarment requirements, we selected 197 disbursements from the following programs that totaled \$70,529,193, distributed as follows:

<u>CFDA NO.</u>	<u>Program</u>	<u>Items Tested</u>	<u>Sample Dollar Amount</u>	<u>Program Disbursements*</u>	<u>Percentage Tested</u>
CFDA 10.566	Nutrition Assistance Program for Puerto Rico	20	\$16,365,513	\$25,365,730	64.52%
CFDA 14.850	Public and Indian Housing	9	1,089,666	1,215,125	89.68%
CFDA 93.556	Promoting Safe and Stable Families	25	3,769,780	6,638,069	56.79%
CFDA 93.558	Temporary Assistance for Needy Families	24	6,316,400	18,660,328	33.85%
CFDA 93.563	Child Support Enforcement	21	6,502,675	13,552,994	47.98%
CFDA 93.569	Community Services Block Grant	19	21,667,200	26,967,043	80.35%
CFDA 93.575	Child Care and Development Block Grant	21	736,428	1,953,046	37.71%
CFDA 93.600	Head Start	21	871,675	1,553,099	56.12%
CFDA 93.645	Child Welfare Services-State Grants	2	344,627	344,627	100.00%
CFDA 93.667	Social Services Block Grant	10	12,230,840	14,606,566	83.74%
CFDA 96.001	Social Security - Disability Insurance	25	634,389	7,667,575	8.27%
		<b>197</b>	<b>\$70,529,193</b>	<b>\$118,524,202</b>	<b>59.51%</b>

\* - Exclude disbursements related to payroll and related benefits.

**Condition found (continued)**

During the performance of our tests we noted the following exceptions:

- A. No disbursement documents available for examination.
- B. Disbursement not properly supported.
- C. Quotes not available for examination.
- D. No receiving report was available for examination.
- E. No contract was available for examination.
- F. Cancelled checks not available for examination.
- G. No report of work performed was available for examination.
- H. Work performed before the contract was signed (Non-Protunc).
- I. Not for actual costs.
- J. Expenditure not considered necessary and/or reasonable for the objectives of the program.

The exceptions mentioned above are the result of: a) deficiencies of the filing system and retrieval which does not provide for immediate identification of payment documents; and b) the failure to implement adequate internal control procedures, such as thorough managerial review, which should detect and correct, on a timely basis, instances where controls are not being followed. The exceptions noted under each program during the performance of our tests were as follows:

CFDA 10.566 Nutrition Assistance Program for Puerto Rico													
Voucher Number	Voucher Date	Amount	A	B	C	D	E	F	G	H	I	J	Questioned Costs
06AP5072	07/20/05	\$ 31,595			X								\$ 31,595
6006089	04/07/06	4,018			X								4,018
6006858	06/02/06	81,594					X					X	81,594
6007728	06/23/06	1,059,057										X	1,059,057
						2	1					2	<u>\$ 1,176,264</u>





**FINDING NO. 06-05 DISBURSEMENT TESTS (CONTINUED)**

Condition found (continued)

CFDA 93.575 Child Care Development Block Grant													
Voucher Number	Voucher Date	Amount	A	B	C	D	E	F	G	H	I	J	Questioned Costs
06AP9038	07/13/05	\$ 3,000						X					
06009373	08/15/05	12,701						X					
06009642	09/15/05	4,000						X					
06009932	10/11/05	6,771						X					
06010214	11/08/05	28,712						X					
06010369	11/22/05	16,525						X					
06010403	11/29/05	17,391						X					
06010485	12/12/05	6,771						X					
06010602	12/19/05	513						X					
06010915	01/26/06	12,993						X					
06011076	02/09/06	2,005						X					
06011385	03/13/06	21,957						X					
06012033	04/28/06	21,108						X					
06012053	05/12/06	23,291						X					
06012418	06/02/06	4,200						X					
06012423	06/12/06	12,701						X					
06012646	06/29/06	1,287						X					

FINDING NO. 06-05 DISBURSEMENT TESTS (CONTINUED)

Condition found (continued)

CFDA 93.600 Head Start													Questioned Costs
Voucher Number	Voucher Date	Amount	A	B	C	D	E	F	G	H	I	J	Questioned Costs
06AP9163	07/15/05	\$ 3,600						X					
06AP9194	08/11/05	40,617						X					
06AP9561	08/29/05	34,986				X		X					
06009555	09/12/05	23,703						X					
06009951	10/20/05	2,520						X					
06010433	11/28/05	150,000						X					
06010438	12/02/05	39,132						X					
06010550	12/19/05	15,900						X					
06010909	02/01/06	220						X					
06011458	03/03/06	82,061						X					
06011578	03/21/06	39,750						X					
06012004	04/24/06	107,115				X		X					
06012018	05/05/06	23,952						X					
0000711857	05/18/06	44,939	X										\$ 44,939
06012400	06/08/06	4,962						X					

1 2 14 \$ 44,939

Total 1 7 5 2 1 4 2 2 1 1 \$ 9,369,691

## Criteria

Section C (1) (j) of the OMB Circular A-87 “Factors affecting allowability of costs” establishes that to be allowable under Federal awards, costs must be adequately documented.

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

Section (b) of 7 CFR 3016.36 and 45 CFR 92.36 (b) establish that grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.

Sections (a) and (b) of 7 CFR 3016.42 and 45 CFR 92.42 establish that all financial and programmatic records, supporting documents, statistical records, and other records of grantees or sub grantees are required to be maintained by the terms of this part, program regulations or the grant agreement, or otherwise reasonably considered pertinent to program regulations or the grant agreement. Records must be retained for three years except as otherwise provided.

45 CFR Section 96.30 (a) establishes that, except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.

### Effect

Above conditions could result in the reimbursement of federal funds to the grantors for those disbursements not properly supported nor authorized by the corresponding grantors representatives. Also, the lack of review of payment vouchers could result in noncompliance with federal regulations and cost disallowances by the grantors. Additionally, amounts disbursed for unallowable expenditures charged to the federal programs were not detected by the PRDF due to the lack of adequate controls.

### Questioned costs

\$ 1,176,264	CFDA 10.566	Nutrition Assistance Program for Puerto Rico
768,251	CFDA 93.556	Promoting Safe and Stable Families
4,214	CFDA 93.558	Temporary Assistance for Needy Families
5,470,167	CFDA 93.569	Community Services Block Grant
44,939	CFDA 93.600	Head Start
<u>1,905,856</u>	CFDA 93.667	Social Services Block Grant

**\$ 9,369,691**

### Recommendations

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

- a) Maintain adequate documentation to support the allowability of its expenditures. The PRDF shall improve its internal controls over the filing and safeguarding of documents in order to easily identify and retrieve payment vouchers and all related supporting documentation and provide such documentation on time for the auditors' review.
- b) Establish and implement written policies and procedures for all aspects of the programs, including controls for proper review and authorization during the processing and payment of programs expenditures. Payment documents and related supporting documentation shall be thoroughly reviewed before they are recorded and processed for payment. All payment vouchers shall be properly authorized by the respective PRDF's representatives and shall be supported with all the required documentation.

**FINDING NO. 06-05      DISBURSEMENT TESTS (CONTINUED)**

**Recommendations (continued)**

- c) Provide adequate training to employees regarding each program requirements and proper procurement and disbursement processing procedures, and as to the importance of safeguarding procedures and the proper coordination and communication for the retrieval of documents when needed.

**Management response for Nutrition Assistance Program for Puerto Rico, CFDA 10.566**

We do not accept the questioned cost of \$1,059,057 to the NAP program. Although the disbursement voucher represents an expense charged only to the NAP program, ADSEF made an allocation (Random Moment Sampling) and distribute only the allowable amount to the NAP program. Finally, we request to the Federal government just the 50% to be in compliance with the federal regulation. We have all the supporting documentation, but the auditors do not finished the test due to the timing to submit the final report.

**FINDING NO. 06-08 CASH MANAGEMENT - PROGRAMS COVERED BY THE  
TREASURY - STATE AGREEMENT UNDER THE ZERO  
BALANCE ACCOUNTING FUNDING TECHNIQUE**

**Federal programs**

CFDA 10.566 Nutrition Assistance Program for Puerto Rico  
CFDA 93.575 Child Care and Development Block Grant  
CFDA 93.600 Head Start

**Category**

Compliance / Internal control

**Compliance requirement**

Cash management

**Condition found**

During the fiscal year ended June 30, 2006, the PRDF requested federal funds covered by the Treasury-State Agreement under the Zero Balance Accounting funding technique for the following programs:

<u>CFDA NO.</u>	<u>Program</u>	<u>Items tested</u>	<u>Sample dollar Amount</u>
10.566	Nutrition Assistance Program for Puerto Rico	20	\$ 16,365,513
93.558	Temporary Assistance for Needy Families	24	6,316,400
93.563	Child Support Enforcement	21	6,502,675
93.575	Child Care and Development Block Grant	21	736,428
93.600	Head Start	21	871,675
96.001	Social Security - Disability Insurance	25	634,389
		<b>132</b>	<b>\$31,427,080</b>

For each of the 132 transactions selected for testing we reviewed the documentation supporting the clearance pattern and verified whether it conformed to the requirements for developing and maintaining clearance patterns as specified in the Treasury-State Agreement. After performing such procedures, we noted that there were 38 transactions (29%) in the amount of \$17,807,333 which represent adjusting journal entries and, accordingly, there was no check clearance and no petition of funds (for claim of reimbursement). For the remaining 94 transactions tested in the amount of \$13,619,747, we noted the following exceptions:

**Condition found (continued)**

- a) There were 14 transactions (15%) in the amount of \$132,823 for which not all relevant information was available for examination; accordingly, we were unable to test compliance with cash management requirements, as follows:

Voucher Number	Voucher Date	Check No.	Check Date	Amount
<b>CFDA 10.566 Nutrition Assistance Program for Puerto Rico</b>				
06AP0535	08/03/05	N/A	N/A	\$ 2,385
<b>CFDA 93.575 Child Care and Development Block Grant</b>				
06AP9038	07/13/05	1566733	07/20/05	3,000
06009373	08/15/05	1584838	08/22/05	12,701
06009642	09/15/05	1603357	09/23/05	4,000
06009932	10/11/05	1618004	10/18/05	6,771
06010369	11/22/05	1645284	11/30/05	16,525
06010403	11/29/05	1647351	12/06/05	17,391
06010485	12/12/05	1664660	01/11/06	6,771
06010602	12/19/05	1660704	12/27/05	513
06010915	01/26/06	1675360	02/02/06	12,993
06011076	02/09/06	1685999	02/16/06	2,005
06011385	03/13/06	1707138	03/20/06	21,957
06012053	05/12/06	1738093	05/19/06	23,291
<b>CFDA 93.600 Head Start</b>				
6009951	10/20/05	1623206	10/27/05	2,520
				<u>\$132,823</u>

N/A – Information not available.

- b) There were five (5) transactions (5%) in the amount of \$68,008 related to the Child Care and Development Block Grant program for which the check was cleared in the CMIA account held at the Governmental Development Bank; however, no request of funds has been issued to the Federal Government. The detail of these transactions follows:

**Condition found (continued)**

Voucher Number	Voucher Date	Check No.	Check Date	Amount
06010214	11/08/05	1636255	11/15/05	\$28,712
06012033	04/28/06	1734372	05/09/06	21,108
06012418	06/02/06	1749862	06/09/06	4,200
06012423	06/12/06	1756383	06/19/06	12,701
06012646	06/29/06	1770705	07/06/06	1,287
				<u>\$68,008</u>

- c) There were two (2) transactions (2%) in the amount of \$85,612 related to the Nutrition Assistance Program for Puerto Rico for which the request of funds was made after the end of the 2006 grant (PANADM2006) closing date (December 31, 2006) by comparing the expenditures of the grant with the amounts requested, and not by specific identification of the cancelled checks. Hence, the PRDF did not follow the clearance pattern established in the Treasury-State Agreement. These transactions were as follows:

Voucher Number	Voucher Date	Petition No.	Petition Date	Amount	Receipt Voucher Number	Date Cleared
6006089	04/07/06	3786	03/13/07	\$ 4,018	152006000618	03/13/07
6006858	06/02/06	3786	03/13/07	81,594	152006000618	03/13/07
				<u>\$85,612</u>		

**Criteria**

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

**Criteria (continued)**

Sections (a) and (b) of 7 CFR 3016.42 and 45 CFR 92.42 establish that all financial and programmatic records, supporting documents, statistical records, and other records of grantees or sub grantees are required to be maintained by the terms of this part, program regulations or the grant agreement, or otherwise reasonably considered pertinent to program regulations or the grant agreement. Records must be retained for three years except as otherwise provided.

31 CFR Section 205.20 establishes that states must use clearance patterns to project when funds are paid out, given a known dollar amount and a known date of disbursement. A State must ensure that clearance patterns is auditable and accurately represent the flow of Federal funds under the Federal assistance programs to which it is applied.

**Effect**

The continued occurrence of these conditions may result in the following:

- a) Due to the significant amount of federal funds received, the PRDF could be exposed to significant administrative sanctions by the grantor, including the assessment of interest cost on funds that were not disbursed within the required time;
- b) The Federal agencies may require that future payment requests be routed to an office of the Chief Financial Officer, USDA and/or HHS representative for approval;
- c) The programs funds may be suspended;
- d) The PRDF may lose the ability to request reimbursement of federal funds for programs expenditures paid for with state funds; and
- e) The Federal Agencies may question the ability of the PRDF to manage federal awards in compliance with laws, regulations, and provisions of contracts and grant agreements.

**Questioned costs**

Could not be determined

## **Recommendations**

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

- a) Maintain adequate documentation to support the petitions of funds and to maintain the audit trace of the clearance pattern; to evidence that such clearance pattern accurately represent the flow of Federal funds under the Federal assistance programs to which it is applied. Accordingly, the PRDF shall improve its internal controls over the filing and safeguarding of documents in order to easily identify and retrieve the petitions of funds and all related supporting documentation.
- b) Establish and implement written policies and procedures for all aspects of the programs, including controls for proper review and authorization during the processing of federal funds drawdowns. Petition documents and its related supporting documentation shall be thoroughly reviewed before they are recorded and processed for refund. All fund petitions shall be properly authorized by the respective PRDF's representatives and shall be supported with all the required documentation.
- c) Provide adequate training to employees regarding each program requirements and proper claim for reimbursement processing procedures, and as to the importance of safeguarding procedures and the proper coordination and communication for the retrieval of documents when needed.

## **Overview of the Office of the Inspector General**

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

### **Office of Audit**

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

### **Office of Investigations**

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

### **Office of the Counsel to the Inspector General**

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

### **Office of External Relations**

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

### **Office of Technology and Resource Management**

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