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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, 2008**

**June 2011**

**A-77-11-00012**

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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: June 14, 2011

Refer To:

To: Frances Cord  
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, 2008 (A-77-11-00012)

This report presents the Social Security Administration's (SSA) portion of the single audit of the Commonwealth of Puerto Rico Department of the Family for the Fiscal Year ended June 30, 2008. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

Torres Llompert, Sanchez Ruiz L.L.P. performed the audit. The U.S. Department of Agriculture (USDA), cognizant agency, did not conduct a desk review. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by Torres Llompert, Sanchez Ruiz L.L.P. We conducted our review in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*.

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 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 DDS is reimbursed for 100 percent of allowable costs. The Puerto Rico Department of the Family (PRDF) is the DDS' parent agency.

The single audit reported that:

- The expenditures submitted to SSA on the *State Agency Report of Obligations for Social Security Administration Disability Programs* (Form SSA-4513) exceeded the expenditures recorded in PRDF's accounting records by \$394,466 (Attachment A, Pages 1 and 2). The corrective action plan indicated the difference was related to how payroll expenses were recorded in the accounting records.<sup>1</sup>

We recommend that SSA determine if the inaccurate reporting of expenditures on the Form SSA-4513 resulted in inappropriate reimbursements to the Puerto Rico DDS and, if so, request the return of any inappropriate reimbursements.

- PRDF had multiple missing documents from personnel files and incorrectly charged payroll costs to programs (Attachment A, Pages 3 through 6). The corrective action plan indicated the Human Resources Office reviewed all personnel files and pending documentation was completed. In addition, the Human Resources Office will review annually all files to ensure that the documentation required is properly organized and included.

We recommend that SSA ensure PRDF

- corrects the personnel file deficiencies for Puerto Rico DDS staff and
- establishes adequate procedures to monitor payroll transactions.<sup>2</sup>
- PRDF charged expenditures totaling \$883,312 to SSA for obligations incurred after the period of availability (Attachment A, Pages 7 through 9). The corrective action plan indicated a new and complete record-keeping system was implemented that will contribute to the proper treatment of obligations.

We recommend that SSA determine whether the obligations recorded after the period of availability resulted in unallowable charges and, if so, request a refund of the unallowable costs.<sup>3</sup>

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<sup>1</sup> The corrective action plans contained in the Single Audit of the Commonwealth of Puerto Rico, Department of the Family, for the Fiscal Year Ended June 30, 2008, were of very low print quality. Therefore, the corrective action plans are not included in this report. By request, the Office of the Inspector General (OIG) will provide a copy of the single audit report to SSA.

<sup>2</sup> We recommended corrective action on this finding to SSA in Management Advisory Report: *Single Audit of the Commonwealth of Puerto Rico, Department of the Family, for the Fiscal Year Ended June 30, 2006* (A-77-09-00011), issued August 5, 2009. However, SSA has not provided documentation of any corrective action taken on this finding. Therefore, we repeat the prior recommendation.

<sup>3</sup> We recommended corrective action on this finding to SSA in Management Advisory Report: *Single Audit of the Commonwealth of Puerto Rico, Department of the Family, for the Fiscal Year Ended June 30, 2006* (A-77-09-00011), issued August 5, 2009 and Management Advisory Report: *Single Audit of the Commonwealth of Puerto Rico, Department of the Family, for the Fiscal Year Ended June 30, 2007* (A-77-09-00012), issued August 20, 2009. However, SSA has not provided documentation of any corrective action taken on this finding. Therefore, we repeat the prior recommendation.

In addition, the single audit reported PRDF did not have:

- Adequate procedures and controls over the timing of cash draws for SSA's disability program and therefore, did not comply with OMB Circular A-102 (Attachment A, Pages 10 through 13).
- Sufficient accounting policies, procedures, and financial reporting practices including a lack of a self-balancing set of accounts and inappropriate monthly and year-end closing procedures (Attachment A, Pages 14 through 16).
- An effective property and equipment system (Attachment A, Pages 17 and 18).

We made recommendations to SSA in prior reports for corrective action on these three findings.<sup>4</sup> We confirmed that SSA had taken appropriate corrective actions to address these findings. Therefore, we will not make recommendations on these findings.

The single audit also disclosed that PRDF's filing system did not permit timely retrieval of payment and other documents, and PRDF did not have internal control procedures to timely detect and correct instances of noncompliance (Attachment B, pages 1 through 8). Although these findings were not specifically identified to SSA, they may impact DDS operations. I am bringing this matter to your attention as it represents potentially serious service delivery and financial control problems for the Agency.

Please send copies of the final Audit Clearance Document to Shannon Agee. If you have questions, contact Shannon Agee at (877) 405-7694, extension 18802.



Patrick P. O'Carroll, Jr.

Attachments

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<sup>4</sup> Management Advisory Report: *Single Audit of the Commonwealth of Puerto Rico, Department of the Family, for the Fiscal Year Ended June 30, 2006* (A-77-09-00011), issued August 5, 2009 and Management Advisory Report: *Single Audit of the Commonwealth of Puerto Rico, Department of the Family, for the Fiscal Year Ended June 30, 2007* (A-77-09-00012), issued August 20, 2009.

**FINDING NO. 08-31      FINANCIAL REPORTING - SOCIAL SECURITY -  
DISABILITY INSURANCE**

**Federal program**

CFDA 96.001      Social Security – Disability Insurance

**Category**

Compliance / Internal control

**Compliance requirement**

Reporting

**Condition found**

As part of our audit procedures on financial reporting requirements, we compared the State Agency Report of Obligations on the SSA Disability Programs (OMB No. 0960-0421) for the Social Security – Disability Insurance program with the accounting records for the fiscal year ended June 30, 2008 for the grant award No. 0804RQD100. After performing these procedures, we noted that the expenditures reported in such report did not agree with the accounting records and no reconciliation was submitted for our evaluation. The difference noted was as follow:

	<u>Amounts Reported</u>	<u>Amounts per Accounting Records</u>	<u>Difference</u>
Period expenditures	<u>\$ 8,239,188</u>	<u>\$ 7,844,722</u>	<u>\$ 394,466</u>

**Criteria**

20 CFR 437.20 (b) (1) establishes that 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.

### **Effect**

Failure to report accurate information on a timely basis prevents the federal agencies from monitoring the performance of the program's financial activities, assessing the achievements of the program and evaluating the expected grant award for the following years.

Additionally, noncompliance with the reporting requirements could lead to significant administrative sanctions by the grantor, including reduction in amounts to be awarded. It could also be interpreted as a failure to achieve program objectives.

### **Questioned costs**

Could not be determined

### **Recommendations**

We recommend the PRDF to develop and implement a formal policies and procedures manual to prescribe uniform procedures on the frequency and format of reporting grant expenditures so that the record keeping system provides the information necessary to:

- a) Prepare the financial reports accurately; and
- b) Ensure the maintenance of accounting records which adequately identify the source and application of funds provided for financially-assisted activities.

Also, we recommend the monthly reconciliation of the internal accounting records used to prepare the Federal financial reports with those of the Puerto Rico Treasury Department (PRIFAS) to ensure the correct accounting of transactions and report accurate information on a timely manner.



**FINDING NO. 08-07      PERSONNEL FILES AND PAYROLL TEST**

**Federal programs**

CFDA 10.566	Nutrition Assistance Program for Puerto Rico
CFDA 17.235	Senior Community Service Employment Program
CFDA 93.556	Promoting Safe and Stable Families
CFDA 93.558	Temporary Assistance for Needy Families
CFDA 93.560	Family Support Payments to States – Assistance Payments
CFDA 93.563	Child Support Enforcement
CFDA 93.575	Child Care Development Block Grant
CFDA 93.600	Head Start
CFDA 93.645	Child Welfare Services – State Grants
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, 2008, the PRDF had approximately 6,600 employees compensated with State funds and 3,300 compensated with Federal funds. Total payroll and payroll related expenditures paid for the year ended June 30, 2008 with State and Federal funds amounted to \$211,215,349 and \$105,373,286, respectively (representing a total annual payroll of \$316,588,635). 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 90 employees. The sample was composed of 40 employees compensated with state funds and 50 with federal funds, for an estimated annual payroll \$1,000,891 and \$1,516,539, respectively (representing a total annual payroll of \$2,517,430). 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
- b) A payroll test to determine if: a) the payroll and payroll related charges were supported by personnel activity reports, and time and attendance records; and b) the employee's total wage or salary was reasonable and consistent with wages or salaries paid for similar work in other activities of the PRDF.

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



### Personnel files

The following documentation was missing from the employees' files:

Documents Missing	Total Files Examined	Document Not Found	Percentage
Personnel file	90	1	1.11%
Health Certificate (DEFAM-12)	90	28	31.11%
Criminal Record Certificate	90	2	2.22%
Academic Preparation Verification	90	2	2.22%
Copy of SS Card	90	2	2.22%
Copy of ID with Photo	90	30	33.33%
Annual Evaluation	90	32	35.56%
Destitution Registry (ORHELA)	90	32	35.56%
Corruption Registry (PRP)	90	18	20.00%
Employment Eligibility verification I-9 Form	90	19	21.11%
Drug Free Test	90	22	24.44%
Child Support Certification (ASM-5)	90	26	28.89%
Certification of Tax return filed (form 330-05)	90	10	11.11%
PR Treasury Department debt certificate	90	30	33.33%
Assume Debt Certificate	90	26	28.89%
CRIM Debt Certificate	90	26	28.89%
Withholding Form (499 R-4)	90	21	23.33%
Certification of Double Compensation	90	61	67.78%
Professional License	90	9	10.00%
Professional Association Registration Receipt	90	7	7.78%
Commitment and Certification of Confidentiality of Information (OA-2001-03)	90	16	17.78%
Certification of received documents	90	11	12.22%
Certification of Requirements Verification (DEFAM-44)	90	6	6.67%
Appointment and Fidelity Pledge	90	1	1.11%
Job Description (DEFAM-10)	90	41	45.56%
Employment application and/or Resume	90	27	30.00%
Birth Certification	90	1	1.11%
Attendance Sheet	90	3	3.33%
Request and Certification of Eligibility Status for Employment or Recruitment of Professional Services in the Public Services.	90	3	3.33%

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, 2008, we found that PRDF does not have adequate controls to ensure that employees whose salaries are reported as charged to federal and/or state funds are working and performing duties directly related to the fund from which they are being paid.

From the sample of files examined described above, we found the following exceptions in the employees' payroll:

- a. In four (4) of the 90 employees' files tested (4%), we were unable to trace the amount related to the payroll to the financial data provided by the Puerto Rico Treasury Department (PRTD). The main reason of improper salary charges is due to PRDF's failure to monitor payroll transactions.
- b. In testing the allowability of payroll costs, we found that salaries paid to some employees are funded or charged to federal programs that are not benefiting from the duties performed by those employees. Our tests revealed the following exceptions:
  1. In three (3) of the 90 employees' files tested (3%), the employees were compensated with federal funds; however, according to the Change Report (Form 409), the employees should have been compensated with State funds. The questioned costs related to the salary of these employees for the fiscal year 2008 amounted to \$79,251.
  2. In one (1) of the 90 employees' files tested (1%), the employee was compensated with state funds; however, according to the Change Report (Form 409), the employee should have been compensated with Federal funds.
  3. In five (5) of the 90 employees' files tested (5%), the account number in the Change Report (Form 409) does not agree with the financial data provided by the PRTD. However, charges were made to the corresponding State and Federal funds correctly.

## **Criteria**

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

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

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

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**

\$56,185	CFDA 93.645	Child Welfare Services – State Grants
23,066	CFDA 93.667	Social Services Block Grant

\$79,251

## **Recommendations**

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

Adequate payroll procedures would allow the PRDF to: a) ensure that payroll costs paid with federal funds are distributed adequately and accurately; and b) keep track of any changes in the tasks performed by an employee, which shall be processed on a timely basis by the Payroll Division. After implementing these improvements the PRDF shall have a continuous monitoring of this process to ensure that control activities are functioning as intended.

**FINDING NO. 08-21 PERIOD OF AVAILABILITY OF FEDERAL FUNDS**

**Federal programs**

CFDA 17.235	Senior Community Service Employment Program
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 93.645	Child Welfare Services - State Grant
CFDA 93.667	Social Services Block Grant
CFDA 96.001	Social Security - Disability Insurance

**Category**

Compliance / Internal control

**Compliance 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, 2008. For each award, we identified the population of transactions recorded after the period of availability and tested a sample to verify whether the underlying obligations occurred within the period of availability and that the liquidation (payment) was made within the allowed time period. After performing these procedures, we noted the following:

- a) The PRDF recorded transactions after the end of the period of availability which increased the expenditures of the following programs by \$184,039,047, distributed as follows:

CFDA No.	Program	Items Tested	Amount Recorded After the End of the	Dollar Sample Tested	Percentage of Coverage
			Period of Availability		
10.566	Nutrition Assistance Program for Puerto Rico	13	\$ 103,233,641	\$ 84,371,834	81.7%
17.235	Resources for Older Workers	25	946,753	452,946	47.8%
93.556	Promoting Safe and Stable Families	25	1,671,037	860,233	51.5%
93.558	Temporary Assistance for Needy Families	23	32,961,413	20,279,611	61.5%
93.563	Child Support Enforcement	13	6,513,371	5,273,029	81.0%
93.569	Community Services Block Grant	8	3,504,060	2,951,357	84.2%
93.575	Child Care Development Block Grant	7	4,498,576	3,660,223	81.4%
93.600	Head Start	20	14,021,976	9,952,550	71.0%
93.645	Child Welfare Services - State Grant	11	860,261	645,386	75.0%
93.667	Social Services Block Grant	14	12,654,218	9,653,660	76.3%
96.001	Social Security - Disability Insurance	24	3,173,741	1,009,053	31.8%
		<b>183</b>	<b>\$ 184,039,047</b>	<b>\$ 139,109,882</b>	<b>75.6%</b>



- b) The PRDF recorded disbursements for obligations incurred after the period of availability in the amount of \$5,295,028. No evidence of subsequent correction was provided for any of the following charges or the evidence provided was insufficient:

<u>CFDA No.</u>	<u>Program</u>	<u>Amount</u>
17.235	Senior Community Service Employment Program	\$ 154,618
93.556	Promoting Safe and Stable Families	844,741
93.558	Temporary Assistance for Needy Families	23,227
93.575	Child Care Development Block Grant	54,203
93.645	Child Welfare Services - State Grant	641,116
93.667	Social Services Block Grant	2,693,811
96.001	Social Security - Disability Insurance	883,312
		<u>\$5,295,028</u>

- c) The PRDF did not provide the supporting documents for disbursements recorded after the period of availability in the amount of \$115,723, as follow:

<u>CFDA No.</u>	<u>Program</u>	<u>Amount</u>
93.569	Community Services Block Grant	<u>\$ 115,723</u>

- d) The PRDF did not provide the supporting documents for the following program to determine compliance with the period of availability requirements in the amount of \$1,192,724, as follow:

<u>CFDA No.</u>	<u>Program</u>	<u>Amount</u>
93.569	Community Services Block Grant	<u>\$1,192,724</u>

- e) The PRDF recorded transactions in these program grants (grant no. G-04B1PRCOSR for the Community Services Block Grant and G-0601PRSOSR and G-0501PRSOSR for the Social Services Block Grant) related to expenditures incurred before the period of availability of funds of such grants, in the amount of \$4,061,682, as follows:

<u>CFDA No.</u>	<u>Program</u>	<u>Amount</u>
93.569	Community Services Block Grant	\$ 936,082
93.667	Social Services Block Grant	3,125,600
		<u>\$4,061,682</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.

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

### **Effect**

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

### **Questioned costs**

\$ 154,618	CFDA 17.235	Senior Community Service Employment Program
844,741	CFDA 93.556	Promoting Safe and Stable Families
23,227	CFDA 93.558	Temporary Assistance for Needy Families
2,244,529	CFDA 93.569	Community Services Block Grant
54,203	CFDA 93.575	Child Care Development Block Grant
641,116	CFDA 93.645	Child Welfare Services – State Grant
5,819,411	CFDA 93.667	Social Services Block Grant
<u>883,312</u>	CFDA 96.001	Social Security - Disability Insurance

**\$10,665,157**

### **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;
- b) The accounting system prevents obligations or expenditures of federal funds outside the period of availability through the review of disbursements by persons knowledgeable of period of availability requirements, specially just before and after cut-off dates;
- c) The timely identification and communication of period of availability requirements and expenditure deadlines to individuals responsible for program expenditure, including automated notifications of pending deadlines;
- d) The periodic reporting of budgeted and actual expenditures and unliquidated balances to appropriate levels of management for its review before and after cut-off dates; and
- e) The recording of all obligations incurred in relation to federal awards through the module of Payment Vouchers with Obligations.



**FINDING NO. 08-09 CASH MANAGEMENT - PROGRAMS NOT COVERED BY THE TREASURY - STATE AGREEMENT**

**Federal programs**

CFDA 10.558 Child and Adult Care Food Program  
CFDA 17.235 Senior Community Service Employment Program  
CFDA 93.556 Promoting Safe and Stable Families  
CFDA 93.645 Child Welfare Services - State Grant  
CFDA 96.001 Social Security - Disability Insurance

**Category**

Compliance / Internal control

**Compliance requirement**

Cash management

**Condition found**

During the fiscal year ended June 30, 2008, the PRDF requested federal funds not covered by the Treasury-State Agreement for the following programs:

<u>CFDA NO.</u>	<u>Program</u>	<u>Items tested</u>	<u>Sample dollar amount</u>
10.558	Child and Adult Care Food Program	25	\$ 1,717,749
14.850	Public and Indian Housing	12	2,202,685
17.235	Senior Community Service Employment Program	4	1,018,451
93.556	Promoting Safe and Stable Families	25	1,329,718
93.645	Child Welfare Services - State Grant	3	47,115
93.667	Social Services Block Grant	9	12,202,564
96.001	Social Security - Disability Insurance	24	826,148
		<b>102</b>	<b>\$19,344,430</b>

For each of the 102 transactions selected for testing, we reviewed the documentation supporting the clearance pattern and determined whether the PRDF followed the procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and their disbursement.

After performing such procedures, we noted that there were seventeen (17) transactions in the amount of \$12,662,262 which represent adjusting journal entries and, accordingly, there was no check clearance and no petition of funds (for claim of reimbursement). For the remaining 85 transactions tested in the amount of \$6,682,168, we noted the following exceptions:

- a) There was one (1) transactions in the amount of \$508 related to the Child Welfare Services - State 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 this transaction is as follow:

Child Welfare Services - State Grant (CFDA 93.645)				
Voucher Number	Voucher Date	Check No.	Check Date	Amount
08009019	07/20/07	7012171	05/25/07	\$ 508



- b) There were 31 transactions in the amount of \$615,153 for which Federal funds were received by the PRDF prior to the day the PRDF paid out the funds for Federal assistance program purposes. The detail of these transactions is as follow:

Voucher Number	Voucher Date	Check No.	Check Date	Amount	Credit Notice Number	Credit Notice Date	Days Elapsed
<b>Promoting Safe and Stable Families (CFDA No. 93.556)</b>							
A0809653	10/19/07	02034397	10/22/07	\$ 70,906	20721645	10/04/07	18
08009935	10/02/07	02029154	10/09/07	24,990	20721645	10/04/07	5
08010292	11/08/07	02047977	11/15/07	15,000	20724511	11/09/07	6
08011349	03/04/08	02099838	03/12/08	46,500	000110	02/15/08	26
08012394	05/27/08	02141557	06/03/08	33,666	0000204	05/16/08	18
08009214	08/06/07	01997484	08/13/07	234	20716577	08/03/07	10
08009512	08/28/07	02008658	09/04/07	13,830	20718359	08/28/07	7
08009845	09/18/07	02020974	09/25/07	82,160	20720920	09/21/07	4
08011274	05/07/08	02131103	05/14/08	23,513	000206	05/02/08	12
08012215	06/11/08	02150099	06/18/08	18,892	000067	05/15/08	34
08012534	06/03/08	02145240	06/10/08	83,750	000163	12/21/07	172
<b>Child Welfare Services - State Grant (CFDA 93.645)</b>							
08012247	05/22/08	2139374	05/29/08	28,463	000043	5/21/08	8

Voucher Number	Voucher Date	Check No.	Check Date	Amount	Credit Notice Number	Credit Notice Date	Days Elapsed
<b>Social Security - Disability Insurance (CFDA No. 96.001)</b>							
08AP0640	08/20/07	02004750	08/28/07	\$ 3,182	97212047	07/31/07	28
08001222	09/10/07	02015826	09/17/07	4,379	97242042	08/30/07	18
08001706	10/03/07	02029654	10/10/07	2,610	97263006	09/20/07	20
08002546	11/16/07	02050676	11/26/07	930	97302063	10/29/07	28
08003301	01/10/08	02071482	01/17/08	4,860	609	12/10/07	38
08004328	02/21/08	02092929	02/28/08	2,328	679	02/06/08	22
08004905	03/25/08	02108087	04/01/08	2,845	495	02/05/08	56
08005782	04/29/08	02125881	05/06/08	3,780	602	04/18/08	18
08006574	06/09/08	02148489	06/16/08	1,406	429	05/14/08	33
08007809	06/24/08	02158020	07/01/08	6,393	410	06/16/08	15
08000747	08/08/07	01998815	08/15/07	4,200	97218062	08/06/07	9
08001993	10/05/07	02031763	10/15/07	6,240	97277074	10/04/07	11
08003061	12/10/07	02060631	12/17/07	6,000	20724355	11/05/07	42
08004854	03/07/08	02101665	03/14/08	5,500	554	03/05/08	9
08006151	05/09/08	02132545	05/16/08	4,840	649	05/02/08	14
08006840	06/09/08	02148776	06/16/08	5,088	81	06/06/08	10
08006888	06/18/08	02154312	06/25/08	6,770	480	06/03/08	22
08001569	10/02/07	02029092	10/09/07	52,739	20721563	10/03/07	6
08004501	03/05/08	02099982	03/12/08	49,159	679	02/06/08	35

\$615,153

- c) There was one (1) draw down of funds made for the Senior Community Service Employment Program (CFDA No. 17.235) in the amount of \$179,096 for which Federal funds were not totally expended during the period covered by our audit, based on information provided by the PRDF. The result of our test was as follow:

Grant No.	Total Receipt Amount	Sample Amount Tested	Percentage Tested	Amount Over Three Days	Interest Liability
AD-14163-THO	\$ 179,096	\$ 176,041	98%	\$ 114,552	\$ 3,390

- d) There were 25 transactions in the amount of \$1,717,749 of the Child and Adult Care Food Program for which PRDF did not reduce the time between the drawdown of Federal funds and its disbursement. The detail of these transactions is as follows:

Voucher Number	Voucher Date	Check No.	Check Date	Amount	Credit Notice Number	Notice or Check Date	Days Elapsed
<b>Child and Adult Care Food Program (CFDA No. 10.558)</b>							
08010822	02/06/08	02083279	02/11/08	\$ 49,737	18817	01/23/08	19
08010827	02/06/08	02083311	02/11/08	68,424	18817	01/23/08	19
08010829	02/06/08	02083282	02/11/08	84,219	18817	01/23/08	19
08010879	02/08/08	02084252	02/12/08	42,985	18817	01/23/08	20
08011114	03/05/08	02097094	03/06/08	117,285	21337	02/13/08	22
08011118	03/05/08	02097078	03/06/08	97,033	21337	02/13/08	22
08011102	03/05/08	02097075	03/06/08	105,603	21337	02/13/08	22
08011107	03/05/08	02097068	03/06/08	136,358	21337	02/13/08	22
08011110	03/05/08	02097064	03/06/08	118,016	21337	02/13/08	22
08011222	03/14/08	02103364	03/18/08	39,247	22918	02/26/08	21
08011207	03/14/08	02103363	03/18/08	54,080	22918	02/26/08	21
08011215	03/14/08	02103376	03/18/08	19,000	22918	02/26/08	21
08011285	04/28/08	02124433	05/01/08	62,200	26928	03/31/08	31
08011582	04/28/08	02124484	05/01/08	44,260	26928	03/31/08	31
08011591	04/28/08	02125613	05/05/08	15,725	26928	03/31/08	35
08011647	05/08/08	02132112	05/15/08	27,831	29967	04/18/08	27
08011653	05/08/08	02132104	05/15/08	56,097	29967	04/18/08	27
08011727	05/13/08	02133855	05/20/08	125,267	29967	04/18/08	32
08012151	06/18/08	02151809	06/20/08	67,287	34487	05/21/08	30
08012156	06/18/08	02151807	06/20/08	69,719	34487	05/21/08	30
08012162	06/18/08	02151797	06/20/08	63,313	34487	05/21/08	30
08012164	06/18/08	02151791	06/20/08	82,346	34487	05/21/08	30
08012169	06/18/08	02152622	06/23/08	85,623	34487	05/21/08	33
08012215	06/24/08	02159242	07/02/08	39,481	34487	05/21/08	42
08012224	06/24/08	02159253	07/02/08	46,613	34487	05/21/08	42

\$1,717,749

- e) There was one (1) transaction in the amount of \$1,350 for which not all relevant information was available for examination (petition date and number were not available); accordingly, we were unable to test compliance with cash management requirements. This transaction is as follows:

Voucher Number	Voucher Date	Check No.	Check Date	Amount
<b>CFDA 93.575 Child Care and Development Block Grant</b>				
08AP9017	7/10/2007	1985347	7/17/2017	\$ 1,350

- f) As noted in Finding No. 08-05, we also noted three (3) instances in the Promoting Safe and Stable Families program (vouchers number 08011211, 08011274, and 08012215) where the cash draws passed to subrecipients were not adequately documented since they are supported by numerous invoices, payroll summaries, or copies of checks which are not reliable and/or properly classified and accumulated. Accordingly, for these cases we were unable to ascertain whether the PRDF followed the procedures implemented to assure that subrecipients minimize the time clapsing between the transfer of Federal funds from the recipient and the pay out of funds for program purposes (A-102 Common Rule § .37(a)(4)).

The estimated interest liability is not questioned herein since the likely questioned costs do not exceed \$10,000.

## **Criteria**

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

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

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

## **Effect**

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

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

## **Questioned costs**

Could not be determined

## **Recommendations**

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

- a) Establish and implement written policies and procedures for all aspects of the programs, including controls for proper review and authorization during the processing of federal funds draw downs. Petition documents and its related supporting documentation shall be thoroughly reviewed before they are recorded and processed for refund. All fund petitions shall be properly authorized by the respective PRDF's representatives and shall be supported with all the required documentation.
- b) Provide adequate training to employees regarding each program requirements and proper claim for reimbursement processing procedures, and as to the importance of safeguarding procedures and the proper coordination and communication for the retrieval of documents when needed.



**FINDING NO. 08-03      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, 2008, 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 controls between grants awards distribution and programmatic activities allocations. In various federal programs we were unable to verify its compliance with certain percentages limitations as required by applicable regulations.

## **Criteria**

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

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

## **Effect**

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

## **Questioned costs**

Could not be determined

## **Recommendations**

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

**Recommendations (continued)**

This plan should:

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

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

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

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



**FINDING NO. 08-14      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:

- a) The Property Divisions do not maintain an effective property and equipment system from which a current and complete subsidiary ledger can be prepared in any of the Administrations of the PRDF.
- b) There are no established procedures or controls to update immediately the property records when an item of property or equipment either is transferred from one location to another or is disposed of. Additionally, there are no established procedures regarding federally funded property that is sold or converted to non-federal use. Without this information the PRDF does not know if it is responsible for compensating the corresponding federal awarding agencies for their share of any property sold or converted to non-federal use.
- c) The PRDF did not provide any evidence as to whether a physical inventory of the property was taken and the results reconciled with the property records at least once every two years.

**Criteria**

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

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



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

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.

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. 08-05      DISBURSEMENT TESTS**

**Federal programs**

CFDA 10.566	Nutrition Assistance Program for Puerto Rico
CFDA 14.850	Public and Indian Housing
CFDA 93.556	Promoting Safe and Stable Families
CFDA 93.558	Temporary Assistance for Needy Families
CFDA 93.563	Child Support Enforcement
CFDA 93.569	Community Services Block Grant
CFDA 93.575	Child Care Development Block Grant
CFDA 93.600	Head Start
CFDA 93.645	Child Welfare Services – State Grants
CFDA 93.667	Social Services Block Grant

**Category**

Compliance / Internal control

**Compliance requirements**

Activities allowed or unallowed  
Allowable costs / cost principles

Period of availability of Federal funds  
Procurement and suspension and debarment

**Condition found**

In testing compliance and internal controls over allowability and procurement and suspension and debarment requirements, we selected 219 disbursements from the following programs that totaled \$70,324,558, 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 10.558	Child and Adult Care Food Program	25	\$ 1,717,749	\$ 8,519,961	20.16%
CFDA 10.566	Nutrition Assistance Program for Puerto Rico	21	5,629,829	19,042,580	29.56%
CFDA 14.850	Public and Indian Housing	12	2,202,685	2,373,672	92.80%
CFDA 93.556	Promoting Safe and Stable Families	25	1,329,718	6,315,916	21.05%
CFDA 93.558	Temporary Assistance for Needy Families	23	4,371,067	12,178,776	35.89%
CFDA 93.563	Child Support Enforcement	21	7,276,139	13,319,590	54.63%
CFDA 93.569	Community Services Block Grant	15	20,416,479	24,149,928	84.54%
CFDA 93.575	Child Care and Development Block Grant	15	752,445	1,446,593	52.01%
CFDA 93.600	Head Start	25	13,552,620	112,368,726	12.06%
CFDA 93.645	Child Welfare Services – State Grants	3	47,115	171,796	27.42%
CFDA 93.667	Social Services Block Grant	9	12,202,564	13,231,580	92.22%
CFDA 96.001	Social Security - Disability Insurance	25	826,148	8,140,944	10.15%
		<b>219</b>	<b>\$70,324,558</b>	<b>\$221,260,062</b>	<b>31.78%</b>

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

**Condition found (continued)**

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

- A. Unallowable activity; expenditure not considered necessary and/or reasonable for the objective of the program.
- B. Disbursement not properly supported.
- C. Quotes not available for examination.
- D. Less than three quotes available for examination.
- E. Cancelled checks not available for examination.
- F. Allocated to an incorrect cost objective.
- G. No receiving report available for examination.
- H. No report of work performed was available for examination.
- I. Work performed before contract was signed.
- J. Suspension and debarment certification not obtained.

<b>CFDA 10.566 Nutrition Assistance Program for Puerto Rico</b>														
<b>Voucher Number</b>	<b>Voucher Date</b>	<b>Amount</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>	<b>I</b>	<b>J</b>	<b>Questioned Costs</b>	
8675308	09/18/07	\$101,360										X		
8675483	11/13/07	\$158,054										X		
8675094	07/24/07	\$ 94,467										X		
8003959	01/30/08	\$ 51,548										X		
8001856	05/05/08	\$220,052										X		
8001915	06/06/08	\$611,930										X		
08AP5226	08/27/07	\$104,200										X		



Condition found (continued)

CFDA 14.850 Public and Indian Housing													
Voucher Number	Voucher Date	Amount	A	B	C	D	E	F	G	H	I	J	Questioned Costs
8011127	28/01/08	\$ 241,952		X									\$ 241,952
8011081	25/01/08	\$ 206,996		X						X			206,996
A8010857	20/12/07	\$ 1,581		X						X			1,581
8011086	25/01/08	\$ 520,158								X			520,158
8011134	28/01/08	\$ 222,937		X						X			222,937
8011030	23/01/08	\$ 101,221								X	X		101,221
8012191	30/04/08	\$ 243,457		X									243,457
8011634	06/03/08	\$ 1,581								X			1,581
8012325	30/04/08	\$ 225,633		X									225,633
8012434	16/05/08	\$ 225,936		X									225,936
			7			6			1			\$1,991,452	

CFDA 93.556 Promoting Safe and Stable Families													
Voucher Number	Voucher Date	Amount	A	B	C	D	E	F	G	H	I	J	Questioned Costs
A0809653	10/19/07	\$ 70,906						X				X	
08009935	10/02/07	\$ 24,990						X					
08010292	11/08/07	\$ 15,000						X					
08011160	02/13/08	\$ 96,405						X			X		\$ 96,405
08011349	03/04/08	\$ 46,500						X					
08012394	05/27/08	\$ 33,666						X			X		33,666
08009214	08/06/07	\$ 234		X	X				X				234
08010414	12/06/07	\$163,246		X				X					163,246

CFDA 93.556 Promoting Safe and Stable Families (continued)													
Voucher Number	Voucher Date	Amount	A	B	C	D	E	F	G	H	I	J	Questioned Costs
08011211	02/14/08	\$205,301		X									\$ 205,301
08011274	05/07/08	\$ 23,513		X									23,513
08012215	06/11/08	\$ 18,892		X									18,892
			5			7			2			\$ 541,257	

**CFDA 93.558 Temporary Assistance for Needy Families**

Voucher Number	Voucher Date	Amount	A	B	C	D	E	F	G	H	I	J	Questioned Costs
8002820	11/21/07	\$ 81,594										X	
080A6302	05/12/08	\$200,000					X						
08AP5010	06/28/07	\$154,169		X								X	\$ 154,169
08AP5224	08/27/07	\$ 22,030		X								X	22,030
08AP5147	09/08/07	\$ 13,550		X									13,550
8675341	02/10/07	\$133,723		X								X	133,723
8675395	11/26/07	\$ 67,743		X								X	67,743
8675601	12/18/07	\$ 44,995										X	
8675525	11/29/07	\$ 31,860										X	
8675648	01/11/08	\$190,078		X								X	190,078
8675751	02/11/08	\$ 23,389		X								X	23,389
8676007	01/30/08	\$158,322										X	
8676080	04/29/08	\$ 26,786										X	
8676032	11/04/08	\$142,848										X	
8676171	05/16/08	\$110,104										X	
8676284	06/05/08	\$109,509										X	

7 1 14 \$ 604,682

**CFDA 93.563 Child Support Enforcement**

Voucher Number	Voucher Date	Amount	A	B	C	D	E	F	G	H	I	J	Questioned Costs
8002851	11/27/07	\$ 14,145					X						
8000299	11/20/07	\$ 48,384		X								X	\$ 48,384
8000698	04/30/08	\$ 121,148		X								X	121,148
8000881	06/26/08	\$ 31,577										X	
8000852	06/12/08	\$ 28,839			X							X	28,839
8003019	05/08/08	\$ 277,000				X						X	277,000

2 1 1 1 5 \$ 475,371

**CFDA 93.569 Community Services Block Grant**

Voucher Number	Voucher Date	Amount	A	B	C	D	E	F	G	H	I	J	Questioned Costs
8003444	01/25/08	\$ 9,314		X									\$ 9,314
See note below													1,210,269

1 \$1,219,583



NOTE: We noted that the PRDF made a payroll adjustment for the Community Services Block Grant in the amount of \$1,210,269 (journal entry number 123086138). From our review of the supporting documents we noted that the reason for the adjustment was to cover a deficiency of State funds of a state activity. The PRDF failed to provide or sustain that such cost was necessary and reasonable for the administration of the program. Therefore, the amount of \$1,210,269 has been questioned.

<b>CFDA 93.575 Child Care Development Block Grant</b>													
<b>Voucher Number</b>	<b>Voucher Date</b>	<b>Amount</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>	<b>I</b>	<b>J</b>	<b>Questioned Costs</b>
08AP9017	07/10/07	\$ 1,350										X	
08009755	10/05/07	\$ 800										X	
08010390	12/11/07	\$ 2,250										X	
08011094	03/11/08	\$ 1,000										X	
08012000	06/09/08	\$ 2,250										X	
08011053	04/07/08	\$ 15,809			X							X	\$ 15,809
08AP9234	08/17/07	\$ 9,900				X							9,900
			<u>1</u>		<u>1</u>							<u>6</u>	<u>\$ 25,709</u>

<b>CFDA 93.600 Head Start</b>													
<b>Voucher Number</b>	<b>Voucher Date</b>	<b>Amount</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>	<b>I</b>	<b>J</b>	<b>Questioned Costs</b>
08011428	04/15/08	\$ 300,000			X							X	\$ 300,000
			<u>1</u>									<u>1</u>	<u>\$ 300,000</u>

<b>CFDA 93.645 Child Welfare Services – State Grants</b>													
<b>Voucher Number</b>	<b>Voucher Date</b>	<b>Amount</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>	<b>I</b>	<b>J</b>	<b>Questioned Costs</b>
8012203	05/12/08	\$ 18,143										X	
8012247	05/22/08	\$ 28,463						X				X	
			<u>1</u>									<u>2</u>	

**Condition found (continued)**

<b>CFDA 93.667 Social Services Block Grant</b>													
<b>Voucher Number</b>	<b>Voucher Date</b>	<b>Amount</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>	<b>I</b>	<b>J</b>	<b>Questioned Costs</b>
8011311	03/11/08	\$ 74,200	X								X		\$ 74,200
123086115	06/26/08	\$1,143,158	X										1,196,887
A8010364	11/09/07	\$ 158,148	X										158,148
123086040	12/03/07	\$1,500,883		X									1,500,883
123086102	06/05/08	\$1,608,016		X									1,608,016
			<u>3</u>	<u>2</u>							<u>1</u>		<u>\$ 4,538,134</u>
<b>Grand Totals -</b>			<u>3</u>	<u>24</u>	<u>4</u>	<u>2</u>	<u>2</u>	<u>8</u>	<u>1</u>	<u>6</u>	<u>4</u>	<u>36</u>	<u>\$ 9,696,188</u>

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.

**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.



### Criteria (continued)

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

\$ 1,991,452	CFDA 14.850	Public and Indian Housing
541,257	CFDA 93.556	Promoting Safe and Stable Families
604,682	CFDA 93.558	Temporary Assistance for Needy Families
475,371	CFDA 93.563	Child Support Enforcement
\$1,219,583	CFDA 93.569	Community Services Block Grant
25,709	CFDA 93.575	Child Care Development Grant
300,000	CFDA 93.600	Head Start
<u>4,538,134</u>	CFDA 93.667	Social Services Block Grant
<b><u>\$9,696,188</u></b>		

## **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.
- c) Provide adequate training to employees regarding each program requirements and proper disbursement 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**

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