

PHG Single Audit  
2007-08

U.S. Department of Labor

Employment and Training Administration  
200 Constitution Avenue, N W  
Washington, D C. 20210



APR 14 2011

ES/UI

SUBJECT: FINAL DETERMINATION

REFERENCE: COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF LABOR AND HUMAN RESOURCES

Audit No.: 24-11-501-03-001

Grant No: ES-14889-05-55, ES-15720-06-55, ES-16241-07-55,  
UI-14458-05-55, UI-16770-08-55

Audit Period: July 1, 2007 through June 30, 2008

Questioned Cost: \$-0-

No. of Administrative Findings: 22

No. of Uncorrected Administrative Findings: 14

This is the Grant Officer's (GO) Final Determination (FD) regarding the findings and recommendations contained in the final audit report (FAR) of the Commonwealth of Puerto Rico, Department of Labor and Human Resources (the Department). The audit covered the period from July 1, 2007 through June 30, 2008. The audit period identified twenty-two (22) administrative findings and no costs were questioned.

The audit was performed by Lopez-Vega, CPA, PCS, in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards issued by the U.S. Comptroller General, and the provisions outlined in the Office of Management and Budget (OMB) Circular A-133, Single Audits for States, Local Government and Non-Profit organizations.

On November 1, 2010, the GO transmitted the FAR to the Department as issued to the U.S. DOL/ETA by the Office of the Inspector General (OIG) for resolution. On December 15, 2010, the Department provided a response to the findings addressed in the FAR.

On January 21, 2011, the GO issued the Initial Determination (ID), which provided the Department with another opportunity to respond to the audit findings. The Department provided a response to the ID on March 18, 2011.

On March 29, the Boston Regional Office provided recommendations to the findings in the ID.

All available information has been reviewed and considered in developing this FD.

A: ADMINISTRATIVE FINDINGS:

FINDING NO. 1  
(08-01)

ACCOUNTING SYSTEM  
(Pages 67-69)

The auditors' report disclosed that the Department lacks adequate accounting procedures and analysis of the accounting transactions recorded during the year, as well as providing proper training and supervision to the accounting staff.

The auditors noted that not preparing and submitting monthly reconciled financial statements does not permit the performance of the following procedures:

- Detection of irregularities of instances of fraud on a timely basis.
- Preparation of a timely comparison of actual expenditures to budget (monthly).
- Discussion of reports with corresponding personnel and receiving explanations for significant variations from budget.
- Compliance with corresponding financial reporting required by the State and Federal government.

OMB Circular, A-133, Subpart C, Section 300 (b), revised June 23, 2003, states that the auditee shall, "maintain internal control over Federal program that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provision of contract or grant agreements that could have a material effect on each of its federal programs."

2 CFR 225, Appendix A, C (1) (a) and (b), January 1, 2007, states in part, "...To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of 2 CFR Part 225..."

29 CFR 97.20 (a) (1) and (2), July 1, 2007, states in part, "... States must have financial management systems in place to account for the expenditure of grant funds, prepare accurate financial reports... [and] be able to trace 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."

29 CFR 97.40 (a), July 1, 2007, states in part, "Grantees are responsible for managing the day-to-day operations of grant and sub-grant supported activities. Grantees must monitor grant and sub-grant supported activities to assure compliance with applicable Federal requirements..."

29 CFR 97.42 (a) (1) (i), July 1, 2007, requires grantees to maintain all financial and programmatic records, supporting documents, statistical records, and other records of grantees considered to be pertinent to program regulations or the grant agreement.

The auditors recommended that the Department evaluate and update its policies and procedures used by the accounting department.

In the response to the auditors' finding, the Department stated that it concurs with the finding and recommendation and will consider it as part of its corrective action plan.

In response to the ID, the Department stated that it is continuing with the process to update the Accounting and Procedures Manual (APM). The expected date of completion is scheduled for December 2011. Once the APM is completed it will be evaluated the by the Department's management for approval and implementation.

**Determination:** Based on the above, this finding is **uncorrected**. The Department should submit a copy of its policies and procedures manual used by the accounting department.

**FINDING NO. 2:**  
**(08-02)**

**CASH - BANK ACCOUNT**  
**(Pages 70-73)**

The auditors' report disclosed that the Department lacked proper maintenance and analysis of its general ledger accounts. The following deficiencies were noted:

- a. Accounting records for the governmental funds were not reconciled with the transactions presented by the PRIFAS report (GL-15).
- b. The Department maintains the responsibility over the preparation of the bank reconciliations for the special revenue fund and the propriety funds bank account. The auditor noted that accounting records maintained unreconciled differences in the cash accounts when compared with bank reconciliations.
- c. Once the bank reconciliation of the special revenue funds were examined, the following deficiencies were noted:
  - Special Disbursements Officer's reconciliation (367-1002-8) include significant reconciling items, such as outstanding checks issued over one year that the Department can not provide any supporting evidence. Also, the reconciliation balances were not conciliated with the account records.
  - Account 367-1701-2, an inactive account, does not have a detail for the deposit in transit amount of \$122,367.59; this account has many other outstanding checks over a year.
  - Account 256-0005-9 with a reconciled balance of \$525,798.59 was not possible to identify it among the different general ledgers maintained by the Department for federal funds.

- Account 367-1290-8 was closed, but bank reconciliation maintained a list of reconciling items which amounts to \$77,500.20. The auditors could not obtain a detail of this amount for verification.

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29 CFR 97.42 (a) (1) (i), July 1, 2007, requires grantees to maintain all financial and programmatic records, supporting documents, statistical records, and other records of grantees considered to be pertinent to program regulations or the grant agreement.

The auditors recommended that the Departments' bank reconciliations be prepared and reconciled with the general ledger on a monthly basis. It was also recommended that management consider the consolidation of cash accounts whenever possible.

In the response to the auditors' finding, the Department stated that it concurs with the finding and recommendation and will consider it as part of its corrective action plan.

In response to the ID, the Department stated that the Finance Director and staff prepared a work plan to reconcile all bank accounts with the general ledger in order to correct all discrepancies. A meeting is pending between the Department and the Treasury Department to discuss and make adjustments to the difference in the accounts from the past two years. The expected date of completion is scheduled for June 2011.

**Determination:** Based on the information above, this finding is **uncorrected**. The Department should provide evidence ensuring that bank reconciliations have been prepared and reconciled with the general ledger on a monthly basis and all discrepancies corrected.

FINDING NO. 3:  
(08-03)

INVESTMENTS  
(Pages 73-74)

The auditors' report disclosed that investments held by the Department pertaining to the Temporary Occupational Disability Insurance have not been reconciled with the general ledger on a monthly basis.

The auditors noted that the Department cannot make the proper collection effort and the Agency's Internal Accounting system does not properly present the financial results of the operations.

2 CFR 225, Appendix A, C (1) (a) and (b), January 1, 2007, states in part, "...To be allowable under Federal awards, costs must meet the following general criteria:

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29 CFR 97.40 (a), July 1, 2007, states in part, "Grantees are responsible for managing the day-to-day operations of grant and sub-grant supported activities. Grantees must monitor grant and sub-grant supported activities to assure compliance with applicable Federal requirements. ..."

29 CFR 97.42 (a) (1) (i), July 1, 2007, requires grantees to maintain all financial and programmatic records, supporting documents, statistical records, and other records of grantees considered to be pertinent to program regulations or the grant agreement.

The auditors recommended that the Department maintain a proper accounts receivable subsidiary ledger and conciliate with the amounts recorded in the general ledger for the different funds.

In the response to the auditors' finding, the Department stated that it concurs with the finding and recommendation and will consider it as part of its corrective action plan.

In response to the ID, the Department states that the PR Disability Program (SINOT) is funded by the quarterly tax imposed to employers and doesn't receive federal funds for operation. The investment reconciliation is up-to-date and, and the finance Department keeps a monthly register for the investment transactions in MUNIS.

The PR Disability Program (SINOT) was established in 1968 under Law No. 139. According to Law No. 139, SINOT is funded by the quarterly taxes imposed to employers. Federal funds are not used to support SINOT.



prescription time for accounts receivable can be affected. The expected date of completion is scheduled for June 2011.

**Determination:** Based on the above this finding is **uncorrected**. The Department should provide a copy of its policies and procedures on its accounting procedures, which ensures that an accounts receivable subsidiary ledger is maintained and properly recorded.

**FINDING NO. 5:**  
**(08-05)**

**ACCOUNTS RECEIVABLE**  
**(PAGE 75)**

The auditors' report disclosed that the Department does not maintain a complete subsidiary of amounts due from the Federal Government and other accounts receivable. During the year the amounts were not reconciled to the general ledger to reflect the actual collectible amount.

The auditors noted that the Department is not using adequate procedures over accounts receivables due to the inadequacy of records

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29 CFR 97.42 (a) (1) (i), July 1, 2007, requires grantees to maintain all financial and programmatic records, supporting documents, statistical records, and other records of grantees considered to be pertinent to program regulations or the grant agreement.

The auditors recommended that an accounts receivable subsidiary should be established and the amounts recorded on the general ledger should be adjusted and analyzed on a monthly basis.

In the response to the auditors' finding, the Department stated that it concurs with the finding and recommendation and will consider it as part of its corrective action plan.

In response to the ID, the Department stated that the accounts receivable module is pending for implementation. The Finance and Budget departments will be working to record, by journal entry in the accounting system, total due from the Federal government for year-end. The expected date of completion is scheduled for June 2011.

**Determination:** Based on the information above, this finding is **uncorrected**. The Department should provide evidence that an accounts receivable subsidiary has been established and amounts recorded on the general ledger are adjusted and analyzed on a monthly basis.

**FINDING NO. 6:**  
**(08-06)**

**CAPITAL ASSETS**  
**(Pages 76-77)**

The auditors' report disclosed that the Department does not have an accounting system that provides for periodic reporting of capital assets under the accrual basis. The following deficiencies were noted:

- The records provided for the auditors' examination do not provide reasonable assurance that all additions for the year are identified and accounted for.
- During the year, the Department did not capitalize its property and equipment acquisitions, instead the agency charged to expense all the acquired property and equipment. Also, there is no reconciliation of acquisitions recorded on capital assets list.
- The cost of property and equipment maintained by the Department does not identify any possible retirements made during the year. Also, it included acquisition dates but serial numbers are not used consistently based on the acquisition dates.
- A depreciation schedule is not maintained for the capital assets held by the Department.

The auditors noted that by not observing the dispositions related to the control and protection of property increases the risk of loss, inadequate use and other irregularities with the property and impairs the timely detection of these irregularities. Additionally, not being able to determine the cost of property and equipment does not permit the Finance Department to prepare complete accounting records, ledgers and information presented in the financial statements. Moreover, not properly disposing of damaged or obsolete property can cause problems of space limitation and overstatement of property cost accounting records.

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29 CFR 97.42 (a) (1) (i), July 1, 2007, requires grantees to maintain all financial and programmatic records, supporting documents, statistical records, and other records of grantees considered to be pertinent to program regulations or the grant agreement.

The auditors recommended that the Finance Department maintain a ledger of all open invoices and all issued payment vouchers by date and fund. Additionally, the internal control structure over benefits payable is reviewed in order to provide assurance of the appropriate reconciliation and recording.

In the response to the auditors' finding, the Department stated that it concurs with the finding and recommendation and will consider it as part of its corrective action plan.

In response to the ID, the Department stated that the Accounts Payable module of the MUNIS is pending for implementation. Once implemented, the Department's staff will be trained to record transactions in MUNIS. The expected completion date is scheduled for December 2011.

**Determination:** Based on the above, this finding is uncorrected. The Department should provide a copy of its internal control policies and procedures and submit evidence that it maintains a ledger of all open invoices and payments vouchers by date and fund.

**FINDING NO. 8:**  
**(08-08)**

**PAYROLL**  
**(Page 79)**

The auditors' report disclosed that there were discrepancies on the amounts of salaries reported and reports prepared by the Puerto Rico Treasury Department for the purpose of FICA Tax returns.

The auditors noted that the organization may be recording the incorrect amount for salary expense or may not be reporting the correct amount of salaries paid to the IRS

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29 CFR 97.42 (a) (1) (i), July 1, 2007, requires grantees to maintain all financial and programmatic records, supporting documents, statistical records, and other records of grantees considered to be pertinent to program regulations or the grant agreement.

The auditors recommended that Department evaluate its internal control systems and procedures maintained by the institution in order to attain accurate records and safeguards of payroll transactions.

In the response to the auditors' finding, the Department stated that it concurs with the finding and recommendation and will consider it as part of its corrective action plan.

In response to the ID, the Department stated that the PRDOL payroll is managed by the PR Treasury Department. Once the Department receives the GL-200 (Puerto Rico Treasury Department Report), the Finance Department reconciles it with the general ledger's accounts in MUNIS.

**Determination:** Based on the information above, this finding is corrected.

**FINDING NO. 9:**  
**(08-09)**

**PAYROLL**  
**(Page 80)**

The auditor's report disclosed that that the Department does not prepare and file the Unemployment Insurance and Disability Tax Returns. Additionally, there is a lack of sufficient personnel in the accounting and administrative departments

The auditors noted that the Department may incur penalties for filing of the required UI tax returns.

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The auditors recommended that the Department evaluate internal control procedures and the different duties assigned to personnel in order to comply with the different requirements of the payroll transactions.

In the response to the auditors' finding, the Department stated that it concurs with the finding and recommendation and will consider it as part of its corrective action plan.

In response to the ID, the Department stated that the PRDOL tax department had registered the payroll in accordance with the report received from PR Treasury Department, but didn't prepare the tax return. To correct the finding, the payroll office prepared the quarterly tax return for Unemployment and Disability Insurance Contribution for the following tax periods: 2008, 2009 and 2010, and will continue filing the returns for future periods.

The Department submitted a copy of the last three quarterly Unemployment & Disability Insurance Contribution reports filed on March 1, 2011 for the four quarters of 2010. The policies and procedures manual is still pending.

Determination: Based on the above, this finding is corrected.

FINDING NO. 10:  
(08-10)

PAYROLL  
(Pages 80-81)

The auditor's report disclosed that the Department's Finance Department does not record the transactions related to payroll and bonus accruals as required by generally accepted accounting principles

The auditors noted that they were unable to determine the proper recording of payroll related liabilities. Therefore, a Statement of Net Assets and a Statement of Activities could not be prepared on an accrual basis of accounting.

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29 CFR 97.42 (a) (1) (i), July 1, 2007, requires grantees to maintain all financial and programmatic records, supporting documents, statistical records, and other records of grantees considered to be pertinent to program regulations or the grant agreement.

The auditors recommended that the Department's Human Resources and Finance Department establish a system that permits the accumulation of data related to the payroll to be able to generate completed and updated reports on a timely basis.

In response to the auditors' finding, the Department stated that it concurs with the finding and recommendation and will consider it as part of its corrective action plan.

In response to the ID, the Department stated that the PRDOL payroll office prepared the annual Christmas bonus report required by the PR Treasury Department. This report is prepared in accordance with the employees' work hours obtained by KRONOS. These accruals were registered in the PR Government Comprehensive Annual Financial Report, Fiscal Year 2009.

The Department indicated that the PR Treasury Department processes the payroll taxes for each payroll period. In addition, PR submitted a copy of the report showing the accumulated total of

Christmas bonuses as of June 30, 2009. The report was submitted to the PR Treasury Department for the Commonwealth of Puerto Rico, Statewide Financial Statements for the 2009 closing.

**Determination:** Based on the information above, this finding is **uncorrected**. The Department should provide evidence that it has established and implemented a system that permits the accumulation of data pertaining to payroll and ensures that all reports are complete, accurate and submitted timely.

**FINDING NO. 11:**  
**(08-11)**

**PAYROLL**  
**(Pages 82-83)**

The auditors' report disclosed that the Department's Human Resources Department did not review employee's files on a frequent and/or timely basis to ensure that the required documents were obtained.

The auditors noted that the Department did not comply with federal and local labor laws and regulations.

2 CFR 225, Appendix A, C (1) (a) and (b), January 1, 2007, states in part, "... To be allowable under Federal awards, costs must meet the following general criteria:

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The auditors recommended that the Department's Human Resources Department review and update all employee files. Additionally, a checklist should be maintained with a list of all required and necessary information and should be housed in the files. Missing documentation should be immediately requested from the employee's employer.



In response to the auditors, the Department concurs with the finding and recommendation and stated that it will be considered as part of the corrective action plan development and implementation.

In response to the FAR, the Department submitted a copy of its Corrective Action Plan which shows that corrective actions measures for this finding have been completed and implemented as of July 2010.

The Department provided evidence that as of July 2010, collection reports and vouchers were reviewed and signed by the Contribution Director. This practice established the necessary control to ensure complete and proper safeguard to prevent loss of cash and vital information.

**Determination:** Based on the information above, this finding is corrected.

**FINDING NO. 13:**  
**(08-13)**

**FILING SYSTEM**  
**(Page 85)**

The auditors' report disclosed that a deficiency in the filing system maintained by the Department due to information being lost or misfiled. Examples of the deficiency are as follows:

- a. The "Negoicado De Seguridad de Empleo" did not provide for examination of four unemployment participants' records required for the beneficiary test.
- b. The Contribution Section did not provide for examination of one employer's tax return during the income and collection test.

The auditors noted that the Department's documents have not been properly safeguarded and consequently not available for audit purposes.

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The auditors recommended that the Department's file cabinets be located in safe place and that only the authorized person has access to it. In addition, management should evaluate the filing system in the different departments of the Commonwealth of Puerto Rico

In response to the auditors, the Department concurs with the finding and recommendation and stated that it will be considered as part of the corrective action plan and development and implementation.

In response to the FAR, the Department submitted a copy of its Corrective Action Plan which shows that corrective actions measures for this finding have been completed and implemented as of August 2009.

The Department has designated a Documents Administrator who will be responsible for the management of the agency's documents. Additionally, the Document Administrator will provide training to management and clerical staff on the document law, regulations, written policies and procedures and perform audits in the different offices of the Department.

**Determination:** Based on the information above, this finding is corrected.

**FINDING NO. 14:**  
**(08-14)**

**FINANCIAL STATEMENTS**  
**(PAGE 86)**

The auditors' report disclosed that the Department's financial statements are not reviewed, analyzed and reconciled on a monthly basis. It appears that this is a result of a lack of formal procedures or timetables in providing the necessary guidelines to the responsible staff.

The auditors noted that directors, management and third parties do not have the reliable financial information of the Department to make administrative, investment and other decisions.

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The auditors recommended that a monthly checklist be prepared to ensure that all procedures and timetables have been met on a timely basis. This will increase the effectiveness of these reports, allowing management to actually use the data in the decision making.

In response to the ID, the Department stated that it is updating the Department's Accounting and Procedures Manual (APM). The manual will be evaluated by management for approval and implementation. The module of GASB 34 in MUNIS, which produces the financial statements, is in process to be implemented. The expected date of completion is scheduled for December 2011.

**Determination:** Based on the information above, this finding is **uncorrected**. The Department should provide evidence of the implementation of a monthly checklist and financial reporting policies and procedures to ensure reports are analyzed, reviewed and submitted on a timely basis

**FINDING NO. 15: INTERNAL CONTROL OVER FINANCIAL REPORTING**  
**(08-15) (PAGES 87-89)**

The auditors' report disclosed that the Department lacks formal manuals or policies and procedures for the following areas:

- The Department has not developed a uniform accounting policies and procedures manual applicable to all areas, which would enhance the financial reporting process by establishing uniform procedures for all funds. Therefore, each employee of the Department is assigned to work in a specific area or task but work according to his/her own experience without following uniform procedures.
- Improper segregation of duties was noted: For example, the same person in the Contributions Division (Unemployment Insurance and Non-Occupational Disability Insurance) is responsible for receiving contributions, preparing the bank deposits, and posting cash receipts and insurance tax collections in the accounting system. In addition, the bank deposits and remittance reports submitted to the Commonwealth of Puerto Rico Treasury Department and Finance Department were performed without independent reviews and authorizations to determine that the reports were complete, accurate and properly recorded in books for bank reconciliation purposes. Additionally, the Disbursements Officer of the Benefit Payments Section of the Drivers' Insurance Fund and Finance Department prepares the disbursement ledger and signs checks through the use of the computer system.
- The Department does not record properly all returned checks as a receivable balance. Instead, they are automatically adjusted to revenue accounts.
- The Department does not have a formal policies and procedures manual that will enhance the uniformity of internal audit procedures among department personnel and increase the efficiency and effectiveness of the internal audit department as a management monitoring tool.

- The Finance Department does not keep appropriate records regarding the composition of encumbrance accounts recorded in books on the different funds maintained by the Agency

The auditors noted that the Department does not have the ability to produce and prepare financial statement on a timely basis, which would accurately reflect the financial position and results of operations for monitoring purposes. Also, no effective internal audit procedures have been performed.

2 CFR 225, Appendix A, C (1) (a) and (b), January 1, 2007, states in part, "...To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of 2 CFR Part 225..."

29 CFR 97.20 (a) (1) and (2), July 1, 2007, states in part, "...States must have financial management systems in place to account for the expenditure of grant funds, prepare accurate financial reports... [and] be able to trace 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."

29 CFR 97.40 (a), July 1, 2007, states in part, "Grantees are responsible for managing the day-to-day operations of grant and sub-grant supported activities. Grantees must monitor grant and sub-grant supported activities to assure compliance with applicable Federal requirements..."

29 CFR 97.42 (a) (1) (i), July 1, 2007, requires grantees to maintain all financial and programmatic records, supporting documents, statistical records, and other records of grantees considered to be pertinent to program regulations or the grant agreement.

The auditors recommended that management develop and implement an accounting policies and procedures manual. Additionally, management must establish proper segregation of duties between custody of assets and the accountability and recording processes.

In response to the auditors, the Department concurs with the finding and recommendation and will be considered as part of the corrective action plan development plan and implementation.

In response to the ID, the Department stated that PRDOL is continuing with the process to update the Accounting and Procedures Manual (APM). The manual will be evaluated by management for approval and implementation. The expected time for completion is scheduled for December 2011.

**Determination:** Based on the above, this finding is uncorrected. The Department should submit a copy of its updated and implemented policies and procedures on financial reporting and its internal control process and ensure that proper segregation of duties is established.

**FINDING NO. 16:**  
**(08-16)**

**TEST OF TRANSACTIONS**  
**(Pages 89-90)**

The auditors' report disclosed that in reviewing 17 beneficiary files of Laws 52 and 82 it was noted that certain documents were missing from the file.

The auditors noted that possible illegal appropriation or fraud may occur and could not be detected.

29 CFR 97.20 (a) (1) and (2), July 1, 2007, states in part, "...States must have financial management systems in place to account for the expenditure of grant funds, prepare accurate financial reports. . . [and] be able to trace 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 "

29 CFR 97.40 (a), July 1, 2007, states in part, "Grantees are responsible for managing the day-to-day operations of grant and sub-grant supported activities. Grantees must monitor grant and sub-grant supported activities to assure compliance with applicable Federal requirements. . ."

The auditors recommended that the Department's Work Incentive Department properly monitor each participant file to assure compliance with the contract.

In response to the auditors, the Department states that it concurs with the finding and recommendation and stated that it will be considered as part of the corrective action plan development and implementation

In response to the FAR, the Department submitted a copy of its Corrective Action Plan which shows that corrective actions measures for this finding have been completed and implemented as of November 2009.

The Department established and implemented new monitoring procedures, participant files were reviewed and missing documentation has been placed in the appropriate files.

**Determination:** Based on the information above, this finding is corrected.

**FINDING NO. 17:**  
**(08-17)**

**TEST OF TRANSACTIONS-DISBURSEMENTS**  
**(Pages 90-91)**

The auditors' report disclosed that the Department lacks proper monitoring by the Finance Department as established by law.

The auditors noted that possible illegal appropriation or fraud may occur and could not be detected.

29 CFR 97.20 (a) (1) and (2), July 1, 2007, states in part, "...States must have financial management systems in place to account for the expenditure of grant funds, prepare accurate financial reports... [and] be able to trace 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."

29 CFR 97.40 (a), July 1, 2007, states in part, "Grantees are responsible for managing the day-to-day operations of grant and sub-grant supported activities. Grantees must monitor grant and sub-grant supported activities to assure compliance with applicable Federal requirements..."

The auditors recommended that proper monitoring by the Finance Department is essential to assure that all administrative procedures and documents support each disbursement as required.

In response to the auditors, the Department states that it concurs with the finding and recommendation and stated that it will be considered as part of the corrective action plan development and implementation.

In response to the ID, the Department stated that the Finance Director is evaluating the procedures for the pre-intervention and payment sections to include them in the Accounting and Procedures Manual (APM). The expected completion date for this finding is scheduled for June 2011.

**Determination:** Based on the information above, this finding is **uncorrected**. The Department should provide an updated copy of its monitoring schedule and ensure that all administrative functions are in compliance with the required regulations.

**NO. 18:**  
(08-18)

**ACCRUED VACATION/SICK LEAVE**  
(Pages 91-92)

The auditors' report disclosed that the Department lacks a computerized system in its Human Resource department as the leave records for each employee are managed manually by the personnel staff of that department.

The auditors noted that the report does not represent the correct leave amount in the financial statement.

29 CFR 97.20 (a) (1) and (2), July 1, 2007, states in part, "...States must have financial management systems in place to account for the expenditure of grant funds, prepare accurate financial reports... [and] be able to trace 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."

29 CFR 97.40 (a), July 1, 2007, states in part, "Grantees are responsible for managing the day-to-day operations of grant and sub-grant supported activities. Grantees must monitor grant and sub-grant supported activities to assure compliance with applicable Federal requirements..."

29 CFR 97.42 (a) (1) (i), July 1, 2007, requires grantees to maintain all financial and programmatic records, supporting documents, statistical records, and other records of grantees considered to be pertinent to program regulations or the grant agreement

The auditors recommended that management establish a computerized system that allows the accumulation of data related to each employee's attendance to be able to generate complete and updated reports on a timely basis.

In response to the auditors, the Department stated that it concurs with the finding and recommendation and stated that it will be considered as part of the corrective action plan development and implementation.

In response to the FAR, the Department submitted a copy of its Corrective Action Plan which shows that corrective actions measures for this finding have been completed as of August 2009.

The Department acquired KRONOS, a computerized attendance system which provides a complete and up-to-date report of accrued vacation and sick leave hours for each of its employees.

**Determination:** Based on the information above, this finding is corrected.

**FINDING NO. 19:**  
**(08-21)**

**EQUIPMENT AND REAL PROPERTY**  
**(Pages 93-94)**

The auditors' report disclosed that the Department had no proper accounting and monitoring procedures over property and accounting transactions. There is no formal subsidiary of property and equipment that shows acquisitions and dispositions segregated by federal programs.

The auditors noted that equipment cost could not be adequately charged to federal programs and there is no reliable support for equipment amounts shown on the financial statements.

29 CFR 97.20 (a) (1) and (2), July 1, 2007, states in part, "States must have financial management systems in place to account for the expenditure of grant funds, prepare accurate financial reports... [and] be able to trace funds to a level of expenditures adequate to establish that such funds have not been used in violation of applicable laws and regulations."

29 CFR 97.36 (a), July 1, 2007, states in part, "When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal fund. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations..."

29 CFR 97.40, July 1, 2007, states in part, "Grantees are responsible for managing the day-to-day operations of grant and sub-grant supported activities. Grantees must monitor grant and sub-grant supported activities to assure compliance with applicable Federal requirements and that performance goals are achieved..."

The auditors recommended the management prepare a detail of its property and equipment as required by State Regulation and Common Rule, Section 32.

In response to the auditors, the Department states that it concurs with the finding and recommendation and stated that it will be considered as part of the corrective action plan development and implementation.

In response to the ID, the Department stated that the PRDOL is still working to update the Property Ledger. The corrective action to identify the property acquired with federal grants was done. The Department is in the process of implementing the Capital Assets module in MUNIS. The expected completion date for this finding is scheduled for September 2011.

**Determination:** Based on the information above, this finding is **uncorrected**. The Department should provide an updated copy of its property and equipment schedule and ensure compliance with Federal requirements.

**FINDING NO. 20:**  
**(08-22)**

**REPORTING**  
**(Pages 94-95)**

The auditors' report disclosed that the Department lacks formal policies and procedures for its financial reporting, internal controls, segregation of duties, and the Information Technology Department.

The auditors noted that the Department does not have the ability to produce and prepare financial statements on a timely basis, which would accurately reflect the financial position and results of the operations for monitoring purposes. Additionally, no internal audits procedures are being performed.

29 CFR 97.20 (a) (1) and (2), July 1, 2007, states in part, that States must have financial management systems in place to account for the expenditures of grant funds, prepare accurate financial reports and be able to trace 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."

29 CFR 97.40, July 1, 2007, states in part, "Grantees are responsible for managing the day-to-day operations of grant and sub-grant supported activities. Grantees must monitor grant and sub-grant supported activities to assure compliance with applicable Federal requirements and that performance goals are achieved..."

29 CFR 97.42 (a) (1) (i), July 1, 2007, requires grantees to maintain all financial and programmatic records, supporting documents, statistical records, and other records of grantees considered to be pertinent to program regulations or the grant agreement.

The auditors recommended that the Department properly monitor and follow up the preparation of reports to comply with due dates.

In response to the FAR, the Department submitted a copy of its Corrective Action Plan which shows that corrective actions measures for this finding was completed in October 2009.

During the last four consecutive quarters, the financial reports have been submitted within the timeframe. During FY-2010, the Department met the reporting deadlines for filing the financial status reports and is in compliance with Federal requirements.

**Determination:** Based on the information above, this finding is corrected.

**FINDING NO. 21:**  
**(08-23)**

**ELIGIBILITY**  
**(Pages 93-94)**

The auditor's report disclosed that the Department has inadequate monitoring procedures to follow-up and ensure compliance with eligibility requirements. In its review of 50 participant eligibility files, they noted that certain documents were missing or actualized in the files.

The auditors noted that management could be subject to administrative sanctions by the Federal agency.

20 CFR 617.57 (a), July 1, 2007, states in part, that States "make and maintain records pertaining to the administration of the Act as the Secretary requires and will make all such records available..."

29 CFR 97.40 (a), July 1, 2007, states in part, "Grantees are responsible for managing the day-to-day operations of grant and sub-grant supported activities. Grantees must monitor grant and sub-grant supported activities to assure compliance with applicable Federal requirements..."

29 CFR 97.42 (a) (1) (i), July 1, 2007, requires grantees to maintain all financial and programmatic records, supporting documents, statistical records, and other records of grantees considered to be pertinent to program regulations or the grant agreement.

The auditors recommended that participant files be reviewed on a regular basis in order to monitor procedures and ascertain that all required documentation be contained in the files.

In response to the ID, the Department stated that the PRDOL Unemployment Director issued written instructions to the local offices directing them to take corrective actions related to the 2008 Single Audit finding 08-23. The Director encouraged the staff to follow the procedures according to federal and state guidelines. The expected completion date is scheduled for September 2011.

**Determination:** Based on the information above, this finding is uncorrected. The Department should provide evidence that participant files are reviewed on a regular basis and required documents contained in the files.

**FINDING NO. 22:**  
**(08-24)**

**REPORTING**  
**(Pages 97-98)**

The auditors' report disclosed that the Department has not submitted the Data Collection Form and the reporting package for the year ending June 2008. The Data Collection Form and reporting package must be submitted by the auditee within the earlier of 30 days after the receipt of the auditors' report or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant agency or the oversight agency for audit.

The Single Audit Act requires that auditees submit to the Federal Clearinghouse, designated by the OMB, the Data Collection Form and one copy of the reporting package.

The auditors noted that the Department is not complying with the reporting requirements set forth by federal regulations which could affect the future of its federal grants. Management has not been able to finish procedures to issue the basic financial statements for the fiscal year ended June 30, 2008 in order to complete its reporting requirements.

29 CFR 97.20 (a) (1) and (2), July 1, 2007, states in part, that States must have financial management systems in place to account for the expenditures of grant funds, prepare accurate financial reports and be able to trace 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."

29 CFR 97.40, July 1, 2007, states in part, "Grantees are responsible for managing the day-to-day operations of grant and sub-grant supported activities. Grantees must monitor grant and sub-grant supported activities to assure compliance with applicable Federal requirements and that performance goals are achieved . . ."

29 CFR 97.42 (a) (1) (i), July 1, 2007, requires grantees to maintain all financial and programmatic records, supporting documents, statistical records, and other records of grantees considered to be pertinent to program regulations or the grant agreement.

The auditors recommended that the Department contract with an audit firm to be in charge of the single audit process before the year end and to close the fiscal year.

In response to the ID, the Department stated that the single audit reports for FY-2009 and FY-2010 have not been completed. Once the reports are completed, the PRDOL will submit the Data collection form. The expected completion date is scheduled for March 2012.

**Determination:** Based on the information above, this finding is uncorrected. The Department should complete and submit the Single Audit reports for FY-09 and FY-10.

**B: QUESTIONED COSTS:** None

SUMMARY OF ADMINISTRATIVE FINDINGS

Findings	Corrected	Uncorrected	Findings	Corrected	Uncorrected
1		X	12	X	
2		X	13	X	
3	X		14		X
4		X	15		X
5		X	16	X	
6		X	17		X
7		X	18	X	
8	X		19		X
9	X		20	X	
10		X	21		X
11		X	22		X



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