



JAN 21 2011

INITIAL DETERMINATION
ES/UI

Mr. Osvaldo Guzman
Auxiliary Secretary
Commonwealth of Puerto Rico
Department of Labor and
Human Resources
505 Muñoz Rivera
Hato Rey, Puerto Rico 00918

SEC. AUX. ASUNTOS GERENCIALES

DTRH 25 ENE'11 PM 2:55

Dear Mr. Guzman:

This letter is to transmit the Grant Officer's (GO) Initial Determination (ID) on an audit of the Workforce Investment Act programs operated by the Commonwealth of Puerto Rico, Department of Labor and Human Resources (the Department). The final audit report as issued to the Employment and Training Administration (ETA) contains twenty-two administrative findings and no costs were questioned. The enclosed ID explains the reasons for the GO's decision regarding the administrative findings which are summarized as follows:

Audit Report No.: 24-11-501-03-001
Audit Period: July 1, 2007 through June 30, 2008
Amount Questioned: \$-0-
No. of Administrative Findings: 22
No. of Uncorrected Administrative Findings: 17

This notification provides the Department with a 60-day informal resolution period within which to submit detailed documentation and correspondence which are relevant to correct any unresolved or pending issues in the ID. The information may be submitted directly to this office, or through the Office of the Regional Administrator which will work closely with this office in the evaluation of the submission. The Final Determination will be issued 180 days from the date of the final audit report.

After reviewing the enclosed determination, please advise the assigned Resolution Specialist, Ana Mulero, at (202) 693-3576 or Mulero.Ana@dol.gov of your preference for the handling of the informal resolution process. If you decide to work principally with ETA's Regional Office, please provide the ARS a copy of any correspondence and documents that you provide to that office.

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To expedite the receipt of your comments, we recommend you express mail your response to the following:

U.S. Department of Labor/ETA/DPRR
FPB - N-4716
200 Constitution Avenue, N.W.
Washington, D.C. 20210
ATTN: Ana Ivette Mulero, Resolution Specialist

Sincerely,



KARIM M. BAUMANN
Grant Officer
Division of Policy, Review and Resolution

Enclosure



JAN 21 2011

ES/UI

SUBJECT: INITIAL 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: 17

This is the Grant Officer's (GO) Initial Determination (ID) regarding the findings and recommendations contained in the single audit report 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, 2009. 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 October 25, 2010, the U.S. Department of Labor, Office of Inspector General issued its final audit report to the Employment and Training Administration for resolution. On November 1, 2010, the Division of Policy, Review and Resolution (DPRR) transmitted the final audit report to the Department.

On December 15, 2010, the Department provided a response to the FAR

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

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 Part 225, January 1, 2007, Appendix A, C (1) (a) and (b), states in part, "...To be allowable under Federal awards, cost 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 FAR, the Department submitted a copy of its Corrective Action Plan and stated that the corrective active measures for this finding are in process and due for completion in January 2011.

ETA staff advised that the Department has not provided a copy of its updated policies and procedures on its accounting process.

Determination: Based on the above, this finding is **uncorrected**. The Department must provide a copy its updated accounting policies and procedures.

FINDING NO. 2:
(08-02)

CASH - BANK ACCOUNTS
(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.

2 CFR Part 225, January 1, 2007, Appendix A, C (1) (a) and (b), states in part, "...To be allowable under Federal awards, cost 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's 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 FAR, the Department submitted a copy of its Corrective Action Plan and stated that the corrective active measures for this finding are in progress and due for completion in December 2010.

ETA staff advised that the Department has not provided evidence ensuring that bank reconciliations have been prepared and reconciled with the general ledger on a monthly basis.

Determination: Based on the information above, this finding is **uncorrected**. The Department must provide evidence 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 Part 225, January 1, 2007, Appendix A, C (1) (a) and (b), states in part, "...To be allowable under Federal awards, cost 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 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 FAR, the Department submitted a copy of its Corrective Action Plan which states the corrective action measures for this finding are in progress and due for completion in January 2011.

ETA staff advised that the Department has not provided evidence ensuring that all investments maintained by third parties have been prepared and reconciled with the general ledger on a

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 FAR, the Department submitted a copy of its Corrective Action Plan and stated that the corrective active measures for this finding are in process and due for completion in December 2010.

ETA staff advised that the Department has not provided evidence that it is maintaining a proper accounts receivable subsidiary ledger and has conciliated it with the amounts recorded in the general ledger for the different funds.

Determination: Based on the above this finding is **uncorrected**. The Department must provide a copy of its policies and procedures on its accounting procedures and ensure 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.

2 CFR Part 225, January 1, 2007, Appendix A, C (1) (a) and (b), states in part, "...To be allowable under Federal awards, cost 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 all 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 FAR, the Department submitted a copy of its Corrective Action Plan and stated that the corrective active measures for this finding are in process and due for completion in December 2010.

ETA staff advised that the Department has not provided evidence that an accounts receivable subsidiary has been established and amounts recorded on the general ledger on a monthly basis.

Determination: Based on the information above, this finding is **uncorrected**. The Department must 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 or 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.

2 CFR Part 225, January 1, 2007, Appendix A, C (1) (a) and (b), states in part, "...To be allowable under Federal awards, cost 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 improve its existing procedures which will permit the establishment and maintenance of appropriate accounting records over the capital assets for reporting in the financial statements. Additionally, perpetual records be established for property and equipment and be updated on a monthly basis with all purchases, transfers and retirements of property. Physical inventories should be conducted on an annual 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 FAR, the Department submitted a copy of its Corrective Action Plan and stated that the corrective active measures for this finding are in process and due for completion in December 2010.

ETA staff advised that the Department has not provided a copy of its updated policies and procedures on its capital assets and its accrual accounting process.

Determination: Based on the information above, this finding is **uncorrected**. The Department must provide a copy of the policies and procedures on its accounting process and provide evidence that it is maintaining appropriate accounting records over its capital assets.

FINDING NO. 7: ACCOUNTS PAYABLE AND BENEFITS PAYABLE
(08-07) (Pages 77-79)

The auditors' report disclosed that the Finance Department is not properly using the subsidiary of accounts payable provided by the computer system (MUNIX). The auditors observed that the procedures performed by the accounts payable personnel were limited to process invoices for payments only and are not following appropriate reporting practices to maintain an adequate and complete subsidiary each month to maintain an adequate and complete subsidiary each month.

The auditors noted that they were unable to determine the proper recording or liabilities since there were no reliable accounts payable subsidiary ledgers. Therefore, financial statements could not be prepared properly on the accrual basis of accounting. Additionally, the internal control structure established on the benefits payable does not provide assurance that all related obligations are properly managed and recorded on books.

2 CFR Part 225, January 1, 2007, Appendix A, C (1) (a) and (b), states in part, "...To be allowable under Federal awards, cost 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 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 FAR, the Department submitted a copy of its Corrective Action Plan and stated that the corrective active measures for this finding are in process and due for completion in December 2010.

ETA staff advised that the Department has not provided evidence that it has established and maintained a ledger of all open invoices, payment vouchers by dated and fund and assurances that reconciliations and recordings have been completed.

Determination: Based on the above, this finding is **uncorrected**. The Department must provide a copy of its internal control policies and procedures and 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.

2 CFR Part 225, January 1, 2007, Appendix A, C (1) (a) and (b), states in part, "...To be allowable under Federal awards, cost 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 Department evaluate its internal control system 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 FAR, the Department submitted a copy of its Corrective Action Plan which states the action for this finding as "in process" and due for completion in December 2010.

ETA staff advised that the Department has not provided a copy of any updated policies and procedures for its internal control system.

Determination: Based on the information above, this finding is **uncorrected**. The Department must provide a copy of its updated policies and procedures on its internal control procedures and ensure that all payroll transactions are accurate and complete.

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.

2 CFR Part 225, January 1, 2007, Appendix A, C (1) (a) and (b), states in part, "...To be allowable under Federal awards, cost 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 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 FAR, the Department submitted a copy of its Corrective Action Plan which states the action for this finding as "in process" and due for completion in March 2011.

ETA staff advised that the Department has not provided a copy of any updated policies and procedures for its internal control process.

Determination: Based on the above, this finding is **uncorrected**. The Department must provide a copy of its updated policies and procedures on its internal control process and ensure that all payroll transactions are accurate and complete.

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.

2 CFR Part 225, January 1, 2007, Appendix A, C (1) (a) and (b), states in part, "...To be allowable under Federal awards, cost 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'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 FAR, The Department partially disagrees with this finding as it states that the Puerto Rico Treasury Department charges payroll taxes for each pay period, and no year end accruals are required to be reported.

ETA staff advised that the Department has not provided evidence that a system has been established which will permit the accumulation of data and the ability to generate completed and updated reports on a timely basis.

Determination: Based on the information above, this finding is **uncorrected**. The Department must 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 Part 225, January 1, 2007, Appendix A, C (1) (a) and (b), states in part, "...To be allowable under Federal awards, cost 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..."

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 97.20 (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 supervising policies should be reviewed by the director of the department in order to verify proper verification procedures. This will help to ensure that all collection reports (deposits slips, etc.) are verified, completed and properly safeguarded to prevent loss or money and important information.

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.

ETA staff advised that the Department has provided evidence that as of July 2010, collection reports and vouchers are being reviewed and signed by the Contribution Director. This practice establishes 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.

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'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.

ETA staff advised that that the Department has designated a Documents Administrator who will be responsible for the management of the agency's documents. Additionally, the Document's Administrator will provide training to management and clerical staff on 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.

2 CFR Part 225, January 1, 2007, Appendix A, C (1) (a) and (b), states in part, "...To be allowable under Federal awards, cost 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 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 FAR, the Department submitted a copy of its Corrective Action Plan which shows that corrective actions measures for this finding are pending and scheduled to be completed by January 2011.

ETA staff advised that Department has not provided evidence that it has developed and maintained a monthly checklist ensuring procedures and timetables are being met.

Determination: Based on the information above, this finding is **uncorrected**. The Department must 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 Part 225, January 1, 2007, Appendix A, C (1) (a) and (b), states in part, "...To be allowable under Federal awards, cost 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 FAR, the Department submitted a copy of its Corrective Action Plan which shows that corrective actions measures for this finding are partially completed or pending and scheduled to be completed between June 2011 through September 2011.

ETA staff advised that the Department has not provided a copy of its policies and procedures manual for financial reporting and its internal control process.

Determination: Based on the above, this finding is **uncorrected**. The Department must 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 Law 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.

ETA staff advised that the Department has established and implemented new monitoring procedures and files were reviewed and missing documentation have been placed in the file.

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 FAR, the Department submitted a copy of its Corrective Action Plan which shows that corrective actions measures for this finding are pending and scheduled to be completed by June 2011.

ETA staff advised that Department has not provided a copy of its monitoring schedule and evidence that administrative procedures are in compliance with reporting requirements.

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

FINDING 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 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 as of August 2009.

ETA staff advised that 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 (b) (1), July 1, 2007, states in part, "Grantees and sub-grantees 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..."

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 FAR, the Department submitted a copy of its Corrective Action Plan which shows that corrective actions measures for this finding are pending and scheduled to be completed by January 2011.

ETA staff advised that the Department has not provided a detailed copy of its property and equipment schedule as required by the regulations.

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

FINDING NO. 20:
(08-22)

REPORTING
(Page 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.

ETA staff advised that during the last four consecutive quarters the financial reports have been submitted within the allowed time. 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 FAR, the Department submitted a copy of its Corrective Action Plan which shows that corrective actions measures for this finding are pending and scheduled to be completed by June 2011.

ETA staff advised that the Department has not provided evidence that it has established monitoring procedures to ensure compliance with eligibility requirements. The UI Director will issue written instructions to the Special Disbursement Officer to make sure that activities are carried out in accordance with established requirements.

Determination: Based on the information above, this finding is **uncorrected**. The Department must provide evidence that participant files are reviewed on a regular basis and required documents are 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 FAR, the Department submitted a copy of its Corrective Action Plan which shows that corrective action measures for this finding is in process and scheduled for completion in March 2012.

ETA staff advised that the Department has not provided evidence that the single audits for 2009 and 2010 have been completed. Contracts for single audits of fiscal years 2009 and 2010 were awarded in June 2009 and June 2010, respectively. The external auditors are in the process of completing the 2009 and 2010 single audits and anticipated a completion date of March 2012.

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

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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