



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

June 26, 2002

Ms. María Rosa Iturregui, Administrator
Puerto Rico Vocational Rehabilitation Administration
Apartado 191118
San Juan, PR 00919-1118

Dear Ms. Iturregui:

This Final Audit Report presents the results of our audit of the Puerto Rico Vocational Rehabilitation Administration (PRVRA). A draft of this report was provided to PRVRA. In its response, PRVRA agreed with our findings and recommendations. We summarized PRVRA's response in this report's "Audit Results" section, under "PRVRA's Reply". A copy of PRVRA's response is provided as an Attachment to this report.

BACKGROUND

The Rehabilitation Act of 1973, as amended, authorizes the allocation of Federal funds on a formula basis for the administration and operation of a vocational rehabilitation program to assist individuals with disabilities in preparing for and engaging in gainful employment.

As a condition for the receipt of Federal funds under Title I, part B, PRVRA, operating within the Puerto Rico Department of Family¹, was designated as the State agency to operate and administer the State Vocational Rehabilitation Services Program for Fiscal Year (FY) 2000. Accordingly, PRVRA is responsible for determining the use and disbursement of the program funds in accordance with Federal regulations.

OBJECTIVES, SCOPE, AND METHODOLOGY

The purpose of our audit was to determine whether PRVRA properly accounted for the unliquidated obligations according to the applicable laws, regulations, and terms of the grant.

The period of our audit was from October 1, 1999, to September 30, 2000. We performed our fieldwork at PRVRA's offices in San Juan, Puerto Rico from March 22, 2001, through June 27, 2001. The entrance conference was held on March 22, 2001, and the exit conference was held on July 11, 2001.

1. Puerto Rico law 97 of June 10, 2000, transferred the administration of PRVRA from the Puerto Rico Department of Family to the Puerto Rico Department of Labor and Human Resources.

To achieve the audit objectives, we reviewed Puerto Rico Department of Family's Single Audit Reports for the years ended June 30, 1996, and June 30, 1997. We also interviewed officials from PRVRA and the Puerto Rico Treasury Department. Lastly, we attempted to obtain PRVRA's supporting documentation for the unliquidated obligations. Unliquidated obligations are funds authorized for expenditure but not yet expended. We were provided with internally generated schedules without any source documentation. The records that were provided were not sufficient, competent, or relevant evidence in support of the unliquidated obligations.

Our audit was conducted in accordance with government auditing standards appropriate to the limited scope of the audit described above.

AUDIT RESULTS

PRVRA did not properly account for the unliquidated obligations according to the applicable laws, regulations, and terms of the grant.

Finding No. 1—PRVRA improperly reported expended funds as unliquidated obligations

PRVRA improperly reported \$15,847,971 as unliquidated obligations for Vocational Rehabilitation grant funds for FY 2000 on its cumulative quarterly Financial Status Report. The regulations in 34 C.F.R. § 80.3² define an expenditure report for nonconstruction grants as the Standard Form (SF) 269, "Financial Status Report." As of September 30, 2000, PRVRA reported on SF 269 total Federal funds authorized of \$62,196,812 for FY 2000. Of the \$62.2 million, they reported on SF 269 unliquidated obligations of \$15.8 million. According to 34 C.F.R. § 80.3, unliquidated obligations for reporting purposes under the accrual basis means the amount of obligations incurred by the grantee for which an outlay has not been recorded.

Our review disclosed that PRVRA expended the \$15.8 million reported as unliquidated obligations, but it could not document how the funds were expended. PRVRA officials stated that they created this amount as a "residual balance" of Federal grant funds by subtracting the Federal grant expenditures they could account for of \$46,348,841, from the total authorized Federal grant funds of \$62.2 million.

The requirements set forth in 34 C.F.R. § 80.20 (a) (1) and (2) establish Federal regulations applicable to financial management. The State must account for grant funds to maintain fiscal control and accounting procedures thus, permitting the preparation of reports and tracing of funds adequate to establish that such funds have not been used in violation of the applicable statutes.

We noted financial discrepancies within two separate PRVRA offices, Finance and Budget. Both the Finance and Budget Offices maintain separate accounting systems for recording transactions. The lack of communication between the two offices within PRVRA, resulted in the incorrect reporting of financial transactions to the U.S. Department of Education (ED).

The Finance Office oversees the reporting of the Puerto Rico Integrated Financial Accounting System (PRIFAS),³ an online computer system directly linked to the Puerto Rico Treasury Department

2. Unless otherwise specified, all regulatory citations are to the July 1, 1999 volume.

3. PRIFAS is the Puerto Rico Treasury Department central accounting electronic system, implemented on July 1, 1998.

(Hacienda).⁴ The Finance Office uses PRIFAS to request and account for payment of expenditures. The Budget Office oversees the Federal Reports Division. PRVRA's Federal Reports Division accessed PRIFAS at the time of filing the SF 269 and observed that the majority of the grant was already expended. Although the PRIFAS information was in direct contrast with their internal accounting records, the Federal Reports Division did not reconcile the differences. Instead, they accounted for the expenditures using their internal records for the SF 269. Since 1996, no reconciliations have been performed of the Finance and Federal Reports Division accounting records. Due to the inadequate records, 1995-1996 was the last grant period closed out. No other reconciliations have been performed to close the more recent grant periods.

PRVRA officials explained that they were in the process of implementing an automated system for grant period 1999-2000. Similar unliquidated obligations problems have been reported as findings in previous reports. For example, in the 1991 OIG report, Audit of the Vocational Rehabilitation Program at Puerto Rico Department of Social Services, ACN 02-90202, as well as the 1994 Rehabilitation Services Administration (RSA) Programmatic Review, PRVRA did not provide documentation for reported unliquidated obligations.

In light of the above problems, there are no assurances that the \$15.8 million reported as unliquidated obligations was expended for intended grant purposes. Accordingly, these funds are unsupported.

Recommendations:

We recommend that the Assistant Secretary for Special Education and Rehabilitative Services require PRVRA to:

- 1.1 Provide support that the \$15.8 million reported as unliquidated obligations, was expended for intended grant purposes and return to ED any amounts that cannot be supported;
- 1.2 Implement accounting controls to assure accurate Federal reporting of unliquidated obligations, and;
- 1.3 Perform reconciliations between financial information accumulated within PRIFAS and PRVRA's internal accounting functions.

PRVRA's Reply

PRVRA concurred with our findings and recommendations. PRVRA stated that the Budget Office was instructed to reconcile the financial information with the Finance Office. Additionally, PRVRA requested an audit from the Puerto Rico Office of Management and Budget regarding the unliquidated obligations. A report is expected no later than June 30, 2002. PRVRA added that in order to maintain proper accounting records, they were in process of implementing an accounting software application developed in-house. They expect that by June 30, 2002, their accounting books will be accurate and complete and that this system will enable them to account for their financial reports.

4. Hacienda is the state agency responsible for administration and disbursement of the Federal funds.

Finding No. 2—PRVRA improperly requested an extension of time to expend unliquidated obligations that had already been expended

PRVRA improperly requested and received from RSA, an extension of time to liquidate the \$15.8 million they reported as unliquidated obligations on the SF 269. RSA monitors the financial status of the program through the SF 269 reports submitted by the grantees. RSA relies on the A-133 Single Audit to ascertain the accuracy of the SF-269 but, the 2000 Single Audit due March 2001, has yet to be submitted. In accordance with 34 C.F.R § 80.23 (b) “Liquidation of Obligations,” at the request of the grantee, RSA may extend the 90-day deadline after the end of the funding period for liquidation of all obligations. Although PRVRA was aware that the funds reported as unliquidated obligations had been expended, they requested an extension of time to liquidate the funds. This request was made to ensure RSA did not reallocate the funds in accordance with 34 C.F.R. § 361.65.

Recommendation:

We recommend the Assistant Secretary for Special Education and Rehabilitative Services:

- 2.1 Provide oversight to PRVRA to assist in monitoring PRVRA’s financial status of the program for the 1999-2000 fiscal period and subsequent years.

PRVRA’s Reply

PRVRA concurred with our findings and recommendation. They instructed their Federal Reports Division of the Budget Office to be diligent in requesting extensions of time. They have developed an in-house accounting software application that will be used to account for all the transactions of PRVRA including the financial reports as required by governmental accounting standards.

OTHER MATTERS

Pursuant to the Single Audit Act of 1984, as amended, Office of Management and Budget Circular No. A-133, revised on June 24, 1997, Audits of States, Local Governments, and Non-Profit Organizations, Subpart B, §_.200(b) states:

Non-Federal entities that expend \$300,000 or more in a year in Federal awards shall have a single audit conducted in accordance with §_.500

Subpart C, §_.320(a) of A-133 further states:

The audit shall be completed and . . . submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period

Subpart C, §_.320(d) of A-133 requires auditees to submit their single audit reports within their data collection package to the Clearinghouse.

Because Puerto Rico Department of Family's Single Audit Reports have been historically late, ED lacks the appropriate information to monitor adequately Puerto Rico Department of Family's administration of ED funds. Moreover, similar findings have been disclosed in the 1997 Single Audit Report. These issues include findings that PRVRA could not locate evidence to support disbursements and that the balances reported in the Financial Status Report (SF 269) did not agree with the general ledger. During our review, we examined Puerto Rico Department of Family's Single Audit Report for the years ended June 30, 1996, and June 30, 1997. The 1997 report, which was due on July 31, 1998, was not issued until July 2001. The 1998 Single Audit Report was due on July 31, 1999, the 1999 Single Audit Report on March 31, 2000, and the 2000 Single Audit Report on March 31, 2001. Both the 1998 and 1999 reports were received in final form as of September 30, 2001. As of June 25, 2002, the 2000 report is still awaiting submission.

Recommendation:

We recommend that the Assistant Secretary for Special Education and Rehabilitation Services require PRVRA to:

- 3.1 Take pro-active steps to assure that Single Audit reports are submitted within the required time frames.

MANAGEMENT CONTROLS

As part of our review, we assessed the system of management controls, policies, procedures, and practices applicable to PRVRA's accounting for unliquidated obligations. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of our substantive tests to accomplish our audit objectives.

For the purpose of this report, we identified and classified the significant management controls into the following categories:

- Form 269 reporting
- Accounting procedures

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed significant management control weaknesses, which adversely affected PRVRA's ability to account for unliquidated obligations. These weaknesses included inadequate record keeping of expenditures and unreliable supporting documentation. These deficiencies and their effects are fully discussed in the AUDIT RESULTS section of this report.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following ED official, who will consider them before taking final action on the audit:

Dr. Robert H. Pasternack
Office of Special Education and Rehabilitative Services
U.S. Department of Education
Mary E. Switzer Building, Room 3006
330 C. Street, SW
Washington, DC 20202

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Sincerely,


Thomas A. Carter
Assistant Inspector General for Audit Services



COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

April 29, 2002

Daniel P. Schultz, Regional Inspector
General for Audit – Region II
U.S. Department of Education
Office of Inspector General
c/o New York City Board of Education
65 Court Street, 12th floor
Brooklyn, NY 11201

This is to respond to your draft audit report A02-B0014. In that report are mentioned some situations regarding improperly reported financial information and improperly requested extension of time. Attached is our corrective action plan for this report.

In addition to the corrective actions, we consider that you should be aware of some actions that were taken in the last fiscal year that are important in the financial reporting process. On October 2001, the Office of Internal Auditing recommended that, in order to maintain proper accounting records, an accounting software application would be needed. On February 25, VRA Accounting was presented to the Budgeting, Finance, and Purchasing offices. This application was developed in-house and will be used to account for all the transactions of PRVRA including financial reports such as RSA-2, **Financial Status Reports**, and other financial reports as required by the governmental accounting standards. We expect that by June 30 our accounting books will be accurate and complete.

If you have any questions, please contact Mr. Hiram González, Director of the Internal Auditing Office, at (787) 268-5909.


María Rosa Iturregui, MRC, CRC
Administrator

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We concur with those findings and corrective actions have been taken as follows:

Findings No.	Description	Corrective Action
1	PRVRA improperly reported expended funds as unliquidated obligation.	Personnel from the Budgeting Office was instructed to reconcile the financial information with the Finance Office. In addition, we requested an audit from the P.R. Office of Management and Budget regarding the unliquidated obligations. A report to that effects should be submitted no later than June 30, 2002.
2	PRVRA improperly requested an extension of time to expend unliquidated obligations that had already been expended.	We instructed the Federal Reports Division of the Budgeting Office to be diligent in requesting extensions of time.

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Auditee

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ED Action Official

Dr. Robert H. Pasternack, Assistant Secretary
Office of Special Education and Rehabilitative Services

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