



**U.S. Department of Education
Office of Inspector General**



American Recovery and Reinvestment Act of 2009

Puerto Rico Recovery Act Audit

Vocational Rehabilitation Administration



Puerto Rico Capitol Building

ED-OIG/A04J0009

December 2009



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services
Region IV

December 14, 2009

Ms. Nydia Colón
Administrator
Vocational Rehabilitation Administration
P.O. Box 191118
San Juan, Puerto Rico 00919-1118

Ing. José Ortiz-Vázquez
Director
Puerto Rico Economic Recovery and Reinvestment Task Force
Edif. Sergio Cuevas Bustamante # 604
Ave. Barbosa
San Juan, PR 00916-7066

Dear Ms. Colón and Ing. Ortiz:

This **final audit report**, Control Number ED-OIG/A04J0009, presents the results of our review of the designed systems of State-level internal control over American Recovery and Reinvestment Act funds in Puerto Rico for the Vocational Rehabilitation Administration.

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 Education Department official, who will consider them before taking final Departmental action on this audit:

Ms. Alexa Posny
Office of Special Education and Rehabilitative Services
U.S. Department of Education
400 Maryland Ave S.W.
Washington, DC 20202-7100

It is the policy of the U. S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within **30 days** would be appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

/s/

Denise M. Wempe
Regional Inspector General for Audit

Abbreviations/Acronyms Used in This Report

| | |
|------------|---|
| ARRA | American Recovery and Reinvestment Act |
| C.F.R. | Code of Federal Regulations |
| CMIA | Cash Management Investment Act |
| CRIS | Consumer Rehabilitation Information System |
| Department | U.S. Department of Education |
| Hacienda | Puerto Rico Department of Treasury |
| IDEA | Individuals with Disability Education Act Part B |
| IL/OB | Independent Living / Older Blind |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| OSERS | Office of Special Education and Rehabilitative Services |
| PRIFAS | Puerto Rico Integrated Financial Accounting System |
| SDO | Special Disbursement Officer |
| SFSF | State Fiscal Stabilization Act |
| SILS | State Independent Living Services |
| VR | Vocational Rehabilitation |
| VRA | Vocational Rehabilitation Administration |

**Puerto Rico Recover Act
Vocational Rehabilitation Administration
ED-OIG/A04J0009**

PURPOSE

The American Recovery and Reinvestment Act of 2009 (ARRA) places a heavy emphasis on accountability and transparency, and in doing so, increases the overall responsibilities of agencies impacted by the Act. The U.S. Department of Education (Department) is responsible for ensuring that the education-related ARRA funds reach intended recipients and achieve intended results. This includes effective implementation and control of funds at the Federal level as well as ensuring that recipients understand requirements and have proper controls in place for 1) administering and reporting ARRA funds, and 2) promptly identifying and mitigating instances of fraud, waste, and abuse of the funds.

The purpose of our review was to determine whether the Vocational Rehabilitation Administration (VRA) had designed a system of internal controls that were sufficient to provide reasonable assurance of compliance with applicable laws, regulations, and guidance governing ARRA. This report provides the results of our review of the controls at the VRA, including those being implemented for ARRA funds.

This report covers only the results of our review performed at VRA. Work performed at other State agencies charged with responsibility for overseeing ARRA funds will be reported separately.

RESULTS

We found that VRA officials were working diligently and proactively to ensure the proper administration of ARRA funds. VRA designated a project manager with the responsibility for providing guidance on the use of ARRA funds and assisting in preparing work plans for ARRA funded projects. However, in our overall risk assessment of VRA's internal control over data quality, cash management, subrecipient monitoring, and the use of funds, we determined that VRA's system of internal controls needs to be strengthened to ensure the proper administration of ARRA funds. Specifically, we found that VRA did not

- Withhold appropriate income taxes from payments;
- Ensure that financial data were reliable for reporting purposes;
- Develop and communicate reporting and job creation or retention guidance;
- Update information system policies and procedures;
- Ensure that time between receipt and payout of Federal funds was minimized; and
- Develop a monitoring plan to ensure compliance with ARRA requirements.

Because of the limited nature of our review, there may be other weaknesses in areas not reviewed – see limitations included in the Scope and Methodology section of this report.

In response to the preliminary copy of our final audit report, VRA provided further clarification and a corrective action for each finding included in the report. VRA's comments are summarized after the recommendations section of each finding. The full text of VRA's response is enclosed with the report.

FINDING NO. 1 – Tax Withholdings Were Inconsistent

VRA's computer programs that were used to determine appropriate income tax withholdings on payments for services rendered were inconsistent. VRA used two programs to calculate income tax withholdings from payments to individuals – one known as the Consumer Rehabilitation Information System¹ (CRIS) is used to determine the appropriate withholdings, and the other is a stand-alone program used to prepare the checks and calculate withholdings. However, the systems were not synchronized, and the pertinent withholdings processed by the two systems were inconsistent and not reliable.

Section 1143 of the Puerto Rico Internal Revenue Code of 1994, as amended (Code) and Regulation No. 5619 of that Section (Regulation) provides that the Government of the Commonwealth of Puerto Rico and every person, who makes payments for services rendered in conducting business for the production of income, shall deduct and withhold 7 percent of such payments with certain exclusions provided by Section 1143(b) of the Code.

We reviewed 35 checks issued² by VRA's Special Disbursement Officer (SDO) as of July 17, 2009, for services rendered under ARRA. We found that although the payment stubs for all 35 checks contained the correct amounts to be deducted, that amount was not deducted from 19 checks, or 54 percent of the checks reviewed. As a result, these 19 checks were issued without the appropriate income tax withholdings required by the Puerto Rico Internal Revenue Code.

The program used by the SDO to prepare the checks automatically displayed a deduction in the payment stub regardless of whether the payments were subject to that deduction. At the same time, the deduction in the payment stub was not automatically deducted from the check amount. Deductions had to be manually entered when checks were being prepared in order to be deducted from the payment.

According to VRA officials, neither of the systems were synchronized, and the main system used to calculate the appropriate deductions was not programmed in accordance with the Puerto Rico Internal Revenue Code of 1994, as amended. VRA officials stated that the first \$1,500 paid during the calendar year to the person who rendered the service was exempt from the 7 percent deduction; however, the system did not recognize amounts paid by calendar year.

A primary purpose of the ARRA funds is to preserve and create jobs and promote economic recovery at all levels. Not withholding the appropriate income tax could prevent the Puerto Rico Department of Treasury (Hacienda) from receiving income from the approximate \$13.3 million awarded to Puerto Rico in Vocational Rehabilitation (VR) ARRA funds, income that could eventually be used to further stimulate the economy and provide better government services. In addition, the deductions shown on the payment stubs may appear on the personal income statements at the end of the calendar year, indicating payments of income taxes that were not actually made. As such, the issue could extend to refunds of taxes as well. Specifically, individuals, organizations, and corporations could receive credit for taxes paid that have not been paid.

¹ A program used to track services provided to consumers and their associated expenditures.

² Checks were selected as part of our testing to ensure amounts reported as disbursed were correct and modifications made to CRIS to collect and compile ARRA data were reliable.

Recommendations

We recommend that the Assistant Secretary for the Office of Special Education and Rehabilitative Services (OSERS) require VRA to —

- 1.1 Review the programming of both systems used to process withholdings on payments for services rendered to ensure that appropriate deductions are processed; and
- 1.2 Determine the extent of the errors and adjust payments and reported tax information, accordingly.

VRA's Comments

VRA agreed with the finding and stated that on October 1, 2009, they began a restructuring process in the Finance Division and all payments are now being processed through the Puerto Rico Integrated Financial Accounting System (PRIFAS). This process will enable VRA to create vouchers from CRIS to be input in PRIFAS for check issuance. Payments processed through PRIFAS must be approved by Hacienda after it verifies account codes, amounts and direct income tax withholding. As a result of the verification process, the risk of not reporting or withholding income tax to an individual in accordance with section 1143 of the Puerto Rico Internal Revenue Code of 1994 as amended and Regulation No. 5619 is eliminated.

OIG's Response

VRA's restructured payment process should mitigate the risk of not reporting or withholding income tax to individuals in accordance with section 1143 of the Puerto Rico Internal Revenue Code and Regulation No. 5619. However, VRA still needs adequate controls over creating vouchers in CRIS to ensure the accuracy and reliability of the data before inputting any information in PRIFAS. VRA did not provide any corrective action addressing Recommendation 1.2.

FINDING NO. 2 — Financial Data Are Not Reliable for Reporting Purposes

VRA uses PRIFAS to report financial data to the U.S. Department of Education's Rehabilitative Services Administration. The financial data in PRIFAS come from CRIS. VRA is using both PRIFAS and CRIS to fulfill ARRA reporting requirements.

We found that VRA posted ARRA accounting entries in PRIFAS under its regular VR funding accounting string with the intent of reimbursing those funds with ARRA funds. However, VRA did not identify the entries as ARRA expenditures, making those transactions difficult to identify unless referring back to the source documents. In addition, a disbursement report provided by VRA officials and obtained from CRIS did not reconcile with the disbursement data in PRIFAS. Specifically, the report 1) included transactions not related to ARRA and transactions with amounts that did not match the supporting documentation; and 2) did not include transactions for which supporting documentation related to ARRA was provided. Without adequate identification of ARRA transactions, VRA will have to review source documents to identify reimbursements to its regular funding, and as we found, audit reconciliation could be an issue.

According to ARRA, Section 1512(c)(2), each recipient that receives recovery funds from a Federal agency shall submit a report to that agency that contains, among other items, the total amount of

recovery funds received from the agency, the amount of recovery funds that were expended or obligated to projects or activities, a detailed list of all projects or activities for which recovery funds were expended or obligated, and an estimate of the number of jobs created and retained by the project and activity. In addition, 34 C.F.R. § 80.20(a) & (b)(1) requires that a State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost type contractors, require that financial management systems of grantees be able to provide accurate, current, and complete disclosure of the financial results of financially assisted activities in accordance with the financial reporting requirements of the grant.

VRA officials stated that they received instructions from Hacienda stating that they could post ARRA related transactions to their regular Federal fund accounting string while PRIFAS was being modified to include the new ARRA accounting string. Once modifications were ready, VRA officials could make the necessary accounting entries. However, if ARRA transactions are not readily identifiable for reimbursement, accounting entries may not be properly made, and reported ARRA data may be unreliable.

Recommendations

We recommend that the Assistant Secretary for OSERS require VRA to —

- 2.1 Ensure that accounting entries posted to the non-ARRA accounting string are reclassified to the proper ARRA accounting string to avoid data reliability issues when reporting; and
- 2.2 Establish adequate supervising procedures to ensure accounting entries are posted to the appropriate accounting string and in accordance with supporting documentation.

VRA's Comments

According to VRA,

- PRIFAS is an account expenditure format which includes all the agency's expenditures and does not pertain solely to CRIS.
- VRA was instructed to initially charge ARRA expenditures to its regular Federal accounts and then adjust the charges after the ARRA account was created in PRIFAS.
- All journal entries have been made to adjust VRA's accounting of ARRA charges from its regular Federal accounts to the appropriate ARRA accounts.

VRA added that it had established written procedures for accounting for all ARRA funds; created separate account codes for ARRA expenses; reconciled ARRA fund information from CRIS and PRIFAS; and created a separate filing system for ARRA funds.

OIG's Response

We commend VRA for its immediate actions to address our recommendations, and maintain that VRA should continue strengthening its procedures to ensure proper accounting of ARRA funds.

FINDING NO. 3 — No Reporting and Job Creation or Retention Guidance

VRA had not developed guidance for reporting nor had it developed criteria or a methodology to estimate the number of jobs to be created or retained as a result of the ARRA funds. According to VRA officials they were in the process of completing a work plan that would include an estimate of the number of jobs to be created or retained based on the services they provide to consumers. As of August 2009, VRA officials had not finished with the work plan that would include a methodology for estimating the number of jobs created or retained. According to VRA, it was waiting for the Department³ to issue more specific reporting guidelines before developing its reporting guidance. For the requirement to report job creation and retention estimates see the Section 1512(c)(2) requirements under Finding No. 2 of this report.

A primary purpose of the ARRA funds is to preserve and create jobs and promote economic recovery. To demonstrate the impact of the ARRA funds in achieving its stated purposes, agencies should establish criteria or a methodology to use in estimating the number of jobs created and or retained, so that the information can be consistently reported within and between States.

Recommendations

We recommend that the Assistant Secretary for OSERS require VRA to —

- 3.1 Develop and implement procedures for reporting in accordance with applicable guidance;
- 3.2 Ensure that proper and accurate ARRA information is reported; and
- 3.3 Develop criteria or methodology to estimate the number of jobs created or retained in order to determine the impact of ARRA funds.

VRA's Comments

VRA stated that it is currently

- Using the Guidance on ARRA reporting issued by the Department on September 2009; and
- Reviewing and developing procedures to ascertain full compliance with reporting requirements on job creation and retention.

OIG's Response

We commend VRA for its immediate actions to address our recommendations, and encourage VRA to continue to develop an internal procedure using the guidance issued by the Department to ascertain full compliance with reporting requirements and to maintain uniformity in its reporting process.

³ The Department's reporting guidance came out in September 2009.

FINDING NO. 4 – Information System Policies and Procedures Were Outdated

VRA has not updated its information system security policies and procedures since November 2000. As a result, current policies and procedures do not reflect changes made to the systems in recent years and are not updated to address the latest threats and security risks. Also, the user manual for CRIS, one of the systems being used to collect, compile, and report ARRA data hadn't been updated since March 2004 despite changes made to the system since that time.

Section 1001 of VRA's information system security policies and procedures establishes a general rule that security policies and procedures be revised twice a year regardless of changes made.

The National Institute of Standards and Technology from the U.S. Department of Commerce, Special Publication 800-53, revision 2, provides guidance for organizations to establish the necessary controls "to meet security requirements defined by applicable laws, Executive Orders, directives, policies, standards, or regulations (e.g., Federal Information Security Management Act, Office of Management and Budget (OMB) Circular A-130, Appendix III). The ultimate objective is to implement information systems that are dependable in the face of threats."

In addition, the Government of Puerto Rico established Law 151, known as "Ley de Gobierno Electrónico,"⁴ providing the Puerto Rico OMB the authority to issue general directives to employ adequate security controls to guarantee the confidentiality, integrity, and availability of data which includes security policies and procedures.

VRA officials have not reviewed and updated its information system security policies and procedures to reflect the latest changes and security threats. Updated security policies and procedures minimize the risk of compromising the agency's information and shows due diligence to the individuals served. Without adequate security policies and procedures the data may be compromised from within or outside the agency, potentially affecting the data reliability of the information reported, including the \$13.3 million in ARRA funds awarded to VRA.

Recommendations

We recommend that the Assistant Secretary for OSERS require VRA to —

- 4.1 Update its information system security policies and procedures as well as the CRIS manual to reflect changes made to the systems in recent years, and to incorporate information addressing the latest security threats; and
- 4.2 Develop a schedule for periodically updating its information systems security policies and procedures.

VRA's Comments

VRA agreed with the finding and recommendation. According to VRA,

- It created a team to review the required information and update changes made to the systems in recent years.

⁴ Electronic Government Law, dated June 22, 2004.

- A new policy will include the practice of reviewing the documentation twice a year; and references to current Government laws, official communications and best practices.
- The documentation will address the latest threats and security issues.

OIG's Response

We commend VRA for its immediate action to address our recommendations in updating its information system security policies and procedures to minimize the risk of compromising the agency's information.

FINDING NO. 5 – Inadequate Procedures to Minimize the Time Between Receipt and Payout of Federal Funds

VRA did not have adequate procedures in place to minimize the time lapse between the receipt and payout of Federal funds for program purposes. VRA relied on Regulation 9,⁵ a regulation issued by Hacienda that dictates the duties and responsibilities of SDOs. However, the regulation did not include a procedure for SDOs to minimize the time between receipt and payout of Federal funds; instead, the procedure stated that payout will be made according to all applicable laws and regulations.

A similar situation was reported in the Single Audit Report for the year ended June 30, 2008. The auditors reported that the VRA had delays in the time elapsed between the transfer of Federal funds and the disbursement of the funds. The delay was attributed to inadequate procedures to minimize the time elapsed between the transfer of Federal funds and the payout of funds.

According to 34 C.F.R. § 80.21(b), methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 C.F.R. Part 205 (Rules and Procedures for Efficient Federal State Funds Transfers). Furthermore, according to 31 C.F.R. § 205.11(a) & (b), a State and a Federal program agency must minimize the time elapsing between the transfer of funds from the United States Treasury and the State's payout of funds for Federal assistance program purposes, whether the transfer of funds occurs before or after the payout of funds. In addition, a State and a Federal program agency must limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs.

VRA officials had not taken appropriate actions to implement a written procedure for the SDO regarding the requisition of funds and subsequent disbursements in order to minimize the time between receipt and payout of Federal funds. As a result, the local Government could incur an interest liability to the Federal Government for the \$13.3 million in ARRA funds awarded to VRA. The issue concerning the lack of procedures had been previously reported to the VRA in its Single Audits and resulted in findings of delays in the time lapsed between the transfer of Federal funds and the payout of funds. However, VRA has not corrected the situation and, as such, is not in compliance with Federal requirements.

⁵ Regulation 9 is known as "Normas Básicas para los Pagadores Especiales Nombrados por el Secretario de Hacienda" (English translation – Basic Norms for Special Disbursement Officers Appointed by the Secretary of the Puerto Rico Department of Treasury). The regulation was approved on May 15, 1997.

Recommendation

We recommend that the Assistant Secretary for OSERS require VRA to —

- 5.1 Establish and document procedures to minimize the time elapsing between the receipt and payout of funds.

VRA's Comments

VRA emphasized that it was under the Cash Management Investment Act⁶ (CMIA) for all payments processed through Hacienda including ARRA funds. Effective October 1, 2009, VRA established a procedure mandating that all consumer services including those funded with ARRA should be processed through Hacienda. VRA stated that by using this process there will be no time elapsed between fund transfers.

OIG's Response

As of the time of our review, it was unclear whether VRA ARRA funds would fall under the CMIA and a procedure had not been established for processing ARRA funds. VRA should establish a written procedure clarifying how and what type of services funded with ARRA will be processed through Hacienda to minimize the time between receipt and payout of Federal funds.

FINDING NO. 6 — Monitoring Plan Needed to Ensure Compliance with ARRA Requirements

VRA had not developed a monitoring plan nor had it assigned responsibility for ensuring compliance with the requirements governing ARRA funding and the proper use of funds to mitigate risk of waste, fraud, and abuse.

Title 34 C.F.R. § 80.40(a) requires States to monitor subrecipients to ensure compliance with applicable Federal requirements. Specifically, "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity." VRA had not developed a monitoring plan to ensure compliance with applicable Federal requirements. The lack of a monitoring plan increases both the risk of non-compliance with requirements governing ARRA and the possibility of waste, fraud, and abuse.

Recommendation

We recommend that the Assistant Secretary for OSERS require VRA to —

- 6.1 Develop and implement procedures to adequately monitor grant and subgrant activities to ensure compliance with the requirements governing ARRA, including assigning the responsibility for ensuring compliance.

⁶ The CMIA is an agreement between the State receiving the funds and the United States Department of Treasury that specifies among other stipulations, the programs and entities covered and the funding techniques to be followed. VRA's statement that they were under the CMIA means that they were under a reimbursement method and that they would pay first with State funding to later request reimbursement from the Federal government.

VRA’s Comments

VRA stated that it had a monitoring plan for all agency activities, but at the time of the audit it had not assigned responsibility for ensuring compliance to any unit in particular. As of October 1, 2009, the Internal Audit Office in coordination with the Budget Division Monitoring Section had been assigned responsibility to review VRA’s compliance with ARRA requirements. According to VRA, ARRA funds follow the same regulation as regular funds for expending purposes; as such, it was not necessary to incorporate changes to its procedures manuals to ensure compliance. In addition, VRA stated that it did not have any subrecipients and, therefore, did not need to develop a monitoring plan for such purposes.

OIG’s Response

Although ARRA funds may follow the same regulations for expending purposes as regular funds, VRA should develop and implement procedures to adequately monitor its grant activities related to ARRA as stated in our recommendation. ARRA places a heavy emphasis on accountability and transparency, therefore, a plan or monitoring tool containing ARRA related requirements will help form the oversight strategy for ensuring that ARRA funds are used appropriately and will also help the Internal Audit Division, as well as the Budget Division Monitoring Section, understand the principles of ARRA and will help ensure compliance with its requirements.

BACKGROUND

VRA is an agency of the Commonwealth of Puerto Rico organized to manage the funds for VR as established in the Rehabilitation Act of 1973, as amended, Public Law 93-112. VRA was previously an operational component of the Department of the Family of the Commonwealth of Puerto Rico until June 10, 2000, when Law 97 transferred it to the Department of Labor and Human Resources of the Commonwealth of Puerto Rico. VRA’s mission is to enable individuals with disabilities to enter the workforce so they can lead independent lives.

ARRA appropriated significant new funding for the VR State Grants program, authorized under Title I of the Rehabilitation Act. The VR State Grants program provided grants to States to help individuals with disabilities, especially those individuals with the most significant disabilities, prepare for, obtain, and maintain employment.

The ARRA provides an unprecedented opportunity for States and VR agencies to implement innovative strategies to improve employment outcomes for individuals with disabilities. The Department awarded to VRA \$13.3 million for its Basic Support, Independent Living/Older Blind (IL/OB) and State Independent Living Services (SILS) programs. On April 1, 2009, the Department made available to VRA the full amount of funds for the IL/OB and SILS programs and 50 percent (\$6,298,416) of the funds for the Basic Support program. The remaining funds were awarded on August 31, 2009.

| CFDA NO. | PROGRAM | AMOUNT (\$) |
|----------|-----------------------------------|---------------------|
| 84.390A | Basic Support | 12,596,832 |
| 84.399A | Independent Living – Older/Blind, | 469,910 |
| 84.398A | State Independent Living Services | 242,913 |
| | TOTAL | \$13,309,655 |

SCOPE AND METHODOLOGY

We assessed VRA's designed system of internal controls, at the time of our field work, to use in administering funds received under ARRA for VR agencies. The review covered controls related to data quality, cash management, subrecipient monitoring, and use of funds.

Our review was limited to assessing the design of the internal controls. We did not evaluate or test in depth the implementation of the controls because ARRA funds had not been drawn down as of the conclusion of our fieldwork.⁷ However, we conducted limited testing on transactions that VRA identified as ARRA but posted in its accounting system under their regular VR accounting string for later reimbursement from ARRA funds. Because of the limited nature of our review, there is a possibility that weaknesses exist in areas that we did not examine.

To understand and assess VRA's designed system of ARRA internal controls that were being implemented at the time of our field work, we

- Reviewed prior single audit reports and monitoring reports issued by the Department;
- Identified ARRA funds allocated to VR;
- Interviewed responsible officials for the implementation of controls, including officials from Hacienda;
- Obtained and reviewed written policies and procedures related to data quality, cash management, subrecipient monitoring, and use of funds;
- Observed payment and accounting process for ARRA related transactions;
- Conducted limited testing of controls over ARRA related transactions to ensure data were reliable for reporting purposes; and
- Reviewed VRA's draft work plan.

The scope of our audit originally included ARRA funds for Title I, Part A of the Elementary and Secondary Education Act (Title I), Individuals with Disability Education Act, Part B (IDEA), and State Fiscal Stabilization Fund (SFSF). However, it was modified to report first on VRA's system of internal control and we plan to issue a separate report for Title I, IDEA, and SFSF.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁷ August 28, 2009.

Enclosure



COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

October 28, 2009

Ms. Denise Wempe
Regional Inspector General for Audit
U.S. Department of Education
Office of the Inspector General
61 Forsyth SW, Rm 18T71
Atlanta, GA 30303

Dear Ms. Wempe:

We would like to thank you and your staff, specifically Mr. Juan Santiago, auditor in charge of the recent intervention to our agency in the review of controls implemented to ensure proper administration of American Recovery and Reinvestment Act of 2009 funds.

Our staff has reviewed the findings and recommendations and is submitting comments to be included in the final report.

Finding No. 1 – Tax Withholdings were Inconsistent

As per Audit ED-OIG / A04J0009 (2009), ARV had various findings relating to inconsistencies in income tax withholding from payments to individuals.

As of October 1, 2009, ARV began a restructuring process in the Finance Division. One of the changes implemented is that all payments are being processed through the PR Treasury Department's PRIFAS. This enables us to create vouchers from the CRIS system which, in turn, will be inputted to the PRIFAS for check issuance. All payments processed through PRIFAS must have the approval of the Department of the Treasury which verifies account codes, amounts and direct income tax withholding. This eliminates the risk of not reporting or withholding income tax to an individual as per Section 1143 of the Puerto Rico Internal Revenue Code of 1994 as amended (Code) and Regulation No. 5619. (Refer to Enclosures A, B, C)

Finding No. 2 – Financial Data Are Not Reliable for Reporting Purposes

We would like to clarify that the information in PRIFAS does not pertain solely to CRIS. CRIS is our service delivery program which contains a fiscal module. Information in CRIS is on individual consumer basis and PRIFAS is an account expenditure format which includes all agency expenditures. The Commonwealth Department of the Treasury created an account for ARRA agency expenditures; however, at the time of the monitoring process, the instructions for the accounting of these expenditures was to charge them to our regular

federal accounts and then adjust the same when the ARRA account was finally created. At this time all journal entries have been accounted for in their correct ARRA accounts. We are including Treasury's instructions as evidence.

In addition, the Administration has:

- o Established written procedures for accounting all ARRA funds.
- o Created separate account codes for ARRA expenses.
- o Reconciled information from CRIS and PRIFAS for ARRA funds.
- o Created a separate filing system for ARRA funds

Finding No. 3 – No Reporting and Job Creation or Retention Guidance

VRA is using the "Guidance on American Recovery and Reinvestment Act of 2009 Section 1512 Quarterly Reporting" issued on September 2009 by the U.S. Department of Education. We are reviewing and developing procedures to ascertain full compliance with reporting requirements on Job Creation and Retention Guidance.

Finding No.4- Information Systems Policies and Procedures were outdated.

We recently acknowledged that Finding No. 4- Information Systems Policies and Procedures were outdated. We agree on this finding and initiatives were taken to correct it.

Following the Audit Report ED-OIG/A04J009 recommendations, we created a team to review the required information and update changes made to the systems in recent years. A new policy will include the practice of reviewing this documentation twice a year. Also, references to current Government Laws, official communications and best practices will be included. The documentation will address the latest threats and security issues.

The strategy to comply with these findings include: First, a three month plan to review and update the manual's information that will be due on January 29, 2010. Second: Identify the impact of the new projects and current developments on these manuals. Third, assign resources with the responsibility to maintain information systems documentation updated. The development of the three month plan includes the implementation of the following action items.

Action Item 1 - The security policies and procedures include:

- IT organizational structure modifications
- Policy 400 Security Standards changes were caused by the physical relocation of the Information Systems and the architecture was altered.
- Policy 800 Training changes will now include a new human resources training division
- Policy 900 Customer Services changes because new technologies were developed to provide remote support. This also caused the Procedure 1009 to be updated as well.

- Procedure 3007 Power OFF / Power ON changes after the modification of the communications architecture.

Action Item 2 - Threats and security risks will include these issues:

- Risk of using the Internet. Many users in VRA use the Internet as part of their work.
- VPN connection. There is a virtual connection between the Internet and the VRA.
- Open ports on Switches and Routers. These teams are in most offices VRA.
- User accounts whose passwords do not expire. These accounts are used for various services in the System.

Action Item 3 – Users manual for CRIS will include these issues:

- The original CRIS did not have the ticket to work forms.
- Fiscal reconciliation was modified.
- The form other referral items changed.
- The main form in the report module changed.
- Modifications were made in the employment form.

The impact of new IT projects in these manuals is in the evaluation phase. The resources assigned to maintain the manuals' updates in the network and communications area are the Director of the Information Systems and the Director of Programming and Systems Development area.

Finding No. 5 – Inadequate Procedures to Minimize the Time Between Receipt and Payout of Federal Funds

We would like to emphasize that ARV is under the Cash Management Investment Act, (C.M.I.A.) for all payments processed through Department of the Treasury. We are including a flowchart with the specific procedures. As of October 1, 2009, the Administration for Vocational Rehabilitation has established that all consumer services of for including those with ARRA funds, should be processed through the Department of the Treasury with payment. There is no time elapsed between fund transfers, since it is totally on a reimbursement method. We therefore believe that the finding was addressed and corrected.

FINDING NO. 6 – Monitoring Plan Needed to Ensure Compliance with ARRA Requirements

ARV has a monitoring plan for all agency activities. It had not assigned responsibility for ensuring compliance at the time of the audit process. However, as of October 1, 2009, the Internal Audit Office, in coordination with the Budget Division Monitoring Section, has been assigned review of compliance with ARRA Requirements.

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Both Divisions have adequate procedures in place to monitor regular activities. ARRA funds follow the same regulations as regular funds for expending purposes; therefore, it is not necessary to incorporate changes to our procedures manuals in order to fulfill compliance. We wish to emphasize that VRA does not have subrecipients, therefore a monitoring plan does not have to be developed for such purposes.

We hope that our comments reassure our commitment to compliance with all federal requirements for the proper administration of American Recovery and Reinvestment Act of 2009 funds.

Please feel free to contact us at your convenience, should you require any additional information.

Cordially,

Nydia Colon Zayas
Administrator

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