

**COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF THE FAMILY  
SINGLE AUDIT REPORT  
FISCAL YEAR ENDED JUNE 30, 2011**



**Aquino, De Córdova, Alfaro & Co., LLP**

**CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS**

**COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF THE FAMILY  
FISCAL YEAR ENDED JUNE 30, 2011  
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**FINANCIAL SECTION**



**Aquino, De Córdoba, Alfaro & Co., LLP**

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# Aquino, De Córdova, Alfaro & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

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## Independent Auditors' Report

Honorable Yanitsia Irizarry Méndez  
Secretary of the Department of the Family  
San Juan, Puerto Rico

We have audited the accompanying Statement of the Cash Receipts and Disbursement (the "Statement") of the Department of the Family of the Commonwealth of Puerto Rico (the "PRDF") for the year ended June 30, 2011. This Statement is the responsibility of the PRDF's management. Our responsibility is to express opinions in the general and special funds on this Statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall Statement's presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note A to the Statement, the PRDF prepares its Statement on a cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the Statement referred to above presents fairly, in all material respects, the cash receipts and disbursement of the Department of the Family of the Commonwealth of Puerto Rico for the year ended June 30, 2011, in conformity with the basis of accounting described in Note A.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2012, on our consideration of the PRDF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the PRDF's Statement of Cash Receipts and Disbursements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the Statement of the PRDF. The Schedule of Expenditures of

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2012, on our consideration of the PRDF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the PRDF's Statement of Cash Receipts and Disbursements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the Statement of the PRDF. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the Statement. The information has been subjected to the auditing procedures applied in the audit of the Statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Statement or to the Statement itself and other additional procedures in our opinion, the information is fairly stated, in all material respects, in relation to the Statement in accordance with auditing standards generally accepted in the United States of America.

As discussed in the Note E to the Statement, the PRDF has expended certain federal grants funds in a manner that may have violated certain of the restrictive provisions of the related grants. The possible outcome of this matter is uncertain at this time. If expenditures are disallowed as a result of the situation, the PRDF may be subject to possible federal claims for refunds of grants monies and the imposition of several remedies or enforcement actions, as more fully explained in Note E to the Statement.

March 23, 2012

*Aquino, De Cordova, Alfaro & Co. SLP*

Stamp number 2635075  
Has been affixed to the  
Original report



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**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF THE FAMILY**  
NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

|                                                    | <u>General</u>       | <u>Special Revenue</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|----------------------------------------------------|----------------------|------------------------|-----------------------------------------|
| <b>Receipts</b>                                    |                      |                        |                                         |
| Grants and contributions                           | \$ -                 | \$ 2,448,033,902       | \$ 2,448,033,902                        |
| Legislative appropriations and other assignments   | <u>360,193,877</u>   | <u>-</u>               | <u>360,193,877</u>                      |
|                                                    | <u>360,193,877</u>   | <u>2,448,033,902</u>   | <u>2,808,227,779</u>                    |
| <b>Disbursements</b>                               |                      |                        |                                         |
| Personnel:                                         |                      |                        |                                         |
| Salaries and fringe benefits:                      |                      |                        |                                         |
| Regular employees                                  | 154,220,105          | 81,088,416             | 235,308,521                             |
| Transitory employees                               | 16,240,597           | 365,117                | 16,605,714                              |
| Irregular employees                                | <u>212,004</u>       | <u>278,927</u>         | <u>490,931</u>                          |
|                                                    | <u>170,672,706</u>   | <u>81,732,460</u>      | <u>252,405,166</u>                      |
| Non-personnel:                                     |                      |                        |                                         |
| Advertising                                        | 1,012,145            | 1,919,249              | 2,931,394                               |
| Capital outlays                                    | 1,077,097            | 3,472,918              | 4,550,015                               |
| Donations, grants and other distributions          | 81,827,450           | 2,284,003,864          | 2,365,831,314                           |
| Facilities and utilities                           | 21,049,348           | 3,824,880              | 24,874,228                              |
| Materials                                          | 2,149,233            | 2,528,931              | 4,678,164                               |
| Miscellaneous services                             | 40,599,864           | 11,193,770             | 51,793,634                              |
| Operating transfers                                | 11,172,610           | 55,114,435             | 66,287,045                              |
| Other                                              | 3,245,758            | 4,478,810              | 7,724,568                               |
| Payment of prior years' liabilities                | 477,061              | -                      | 477,061                                 |
| Professional services                              | 8,550,993            | 25,405,789             | 33,956,782                              |
| Transportation and subsistence                     | <u>2,355,854</u>     | <u>1,079,041</u>       | <u>3,434,895</u>                        |
|                                                    | <u>173,517,413</u>   | <u>2,393,021,687</u>   | <u>2,566,539,100</u>                    |
|                                                    | <u>344,190,119</u>   | <u>2,474,754,147</u>   | <u>2,818,944,266</u>                    |
| Excess (Deficiency) of receipts over disbursements | <u>\$ 16,003,758</u> | <u>\$ (26,720,245)</u> | <u>\$ (10,716,487)</u>                  |

See accompanying notes to Statement of Cash Receipts and Disbursements.



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**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF THE FAMILY**  
**NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The Department of the Family (the PRDF) is an executive agency of the Commonwealth of Puerto Rico (the Commonwealth) created by Act No. 171 of June 30, 1968 and amended by the Reorganization Plan Number 1 of July 28, 1995. The PRDF is responsible for carrying out the programs directed towards the solution or mitigation of social problems in Puerto Rico, including social services programs with emphasis on the rehabilitation of individuals and on the interrelationships between individuals, families and the community.

Through its own actions or in coordination with other government or private organizations, the PRDF carries out programs of direct economic aid to needy persons, service for the welfare of children, youths and disabled persons, rehabilitation and training programs, community improvement projects, programs for providing employment to unemployed persons, guidance programs for individuals and families, and any other activity which leads to the social improvement of individuals as well as of families and communities. The Secretary of the PRDF is appointed by the Governor of the Commonwealth.

The PRDF, which has ten regional offices and at least one service office in each municipality of Puerto Rico, is organized as follows:

1. The Secretariat, which is responsible for the fiscal control, general administration, planning, coordination, supervision, and evaluation of the operations of the PRDF and its components. The Secretariat is responsible for documenting, evaluating and adjudicating all disability claims made to the Social Security - Disability Insurance by insured workers, their widows (if between 50 and 59 years old) and disabled dependents that are at least 18 years old. Additionally, the Secretariat facilitates the procedures to obtain information and provides counseling to the claimants.
2. The Families and Children Administration, which is responsible for promoting and supporting the efforts of individuals, families and communities contributing to its own development and that of the society. Accordingly, it facilitates social, educational, remedial and preventive services directed to achieving a better and more effective participation, equality and social justice.
3. The Child Support Enforcement Administration, which is responsible for procuring the compliance of the: i) non custodial parents of minors under 21 years; ii) the descendents of people older than 60 years; and iii) the people legally responsible for contributing to the support and welfare of the children of elderly parents, safeguarding their rights to receive alimony and increasing the auto-sufficiency of the families by applying the legal mechanisms available.
4. The Socioeconomic Development Administration, which is responsible for facilitating: i) the development of opportunities to socially and economically disadvantaged people to let them achieve self-sufficiency and integration to the social system in a productive way; and ii) the familiar and community common living.



**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF THE FAMILY**  
NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

5. The Integral Care and Development of the Children Administration, which is responsible for ensuring the care and development of the minors that, participate in the Head Start Program and in the Child Care and Development Program.

The Secretary of the PRDF has oversight responsibilities over the Corporation of Industries of the Blind, Mentally Retarded, and Other Disabled People (the CIB), which is responsible for contributing to the social and economic rehabilitation of the blind and disabled people. Although the PRDF has oversight responsibilities over the CIB, it is not included in the accompanying Statement since its operations are subject to a separate financial or single audit, as applicable.

**Basis of presentation**

The accounts of the PRDF are organized in two fund types: a General Fund and a Special Revenue Fund. The PRDF maintains appropriation for several individual state and federal funds within each fund type. The General Fund is the general operating fund used to account for the funds appropriated by the Legislature of the Commonwealth of Puerto Rico and is the fund through which most functions are typically financed. The Special Revenue Fund accounts for federal financial assistance programs funded by the Federal Government that is legally restricted to expenditures for specific purposes.

**Basis of accounting**

The Statement of Cash Receipts and Disbursements has been prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under the cash basis of accounting, cash receipts and disbursements are recorded when cash is received or disbursed. Noncash transactions are not recognized in the Statement.

**NOTE B - RETIREMENT PLANS**

**Defined benefit plan**

All regular employees hired before January 1, 2003 and less than 55 years old at the date of employment are covered, and must participate, in the employee defined benefit retirement plan. The Plan is administered by the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities, and is a cost-sharing multiple employer plan. Employees must contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the salary in excess of \$550. The PRDF contributes 9.275% of total gross salaries.





**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF THE FAMILY**  
**NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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**NOTE B - RETIREMENT PLANS - CONTINUED**

**Defined contribution plan- continued**

All: a) regular employees hired on or after January 1, 2001; b) former employees that participated in the defined benefit plan and received a refund of their contributions; c) employees who were rehired on or after January 1, 2003; and d) employees who at December 31, 1999 were participants of the defined benefit plan and irrevocably transferred their prior contributions to the defined contribution plan, are covered, and must participate, in the employee defined contribution retirement plan administered by the Employees' Retirement System of the Government of Puerto Rico and its instrumentalities. Employees must contribute 8.275% of their monthly gross salary to the program and may elect to increase their contribution up to 10%. The PRDF contributes 9.275% of total gross salaries.

Upon retirement the employee's account balance will be used to purchase an annuity contract which will provide for a monthly benefit payable to the participant during his/her life. Upon death of the participant, 50% of such benefit will be paid to the participant's beneficiary. Participants with a balance of \$10,000 or less at retirement will receive a lump-sum payment. In the case of death, this lump-sum payment will be made to his/her beneficiaries. Participants have the option of receiving a lump-sum payment or purchasing an annuity contract in case of permanent disability.

Total employer contributions made to both employee benefit plans during the years ended June 30, 2011, 2010 and 2009 amounted to approximately \$15.6 million, \$19.8 million and \$20.9 million, respectively.

**NOTE C - COMPENSATED ABSENCES**

Regular employees accrue vacation and sick leave of 2.5 days and 1.5 days per calendar month, respectively. The allowed maximum number of accumulated days of regular vacation and sick leave is 60 days and 90 days, respectively.

**NOTE D - INDIRECT COST ALLOCATION PLAN**

The United States Department of Health and Human Services (the "HHS"), the Audit Cognizant Agency, approves the rates used by the PRDF to allocate qualified types of expenditures from state funds to federal financial assistance programs. For the year ended June 30, 2011, rates in the indirect cost allocation plan approved by HHS ranged from 8% to 18.5%.

**NOTE E - CONTINGENCIES**

**Litigation**

The PRDF is a defendant in lawsuits arising in the normal course of operations, principally from claims for alleged damages. According to the laws of the Commonwealth, the PRDF is fully represented by the Puerto Rico Department of Justice in defense of all legal cases against the PRDF. Any claims with negative financial impact would be paid from the General Fund of the Commonwealth, with no effect on the budget or resources of the PRDF.



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**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF THE FAMILY**  
**NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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**NOTE E - CONTINGENCIES - CONTINUED**

**Federal awards**

The PRDF participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantors. If expenditures are disallowed due to noncompliance with grant program regulations, the PRDF may be required to reimburse the grantors.

On March 23, 2012, the PRDF submitted a corrective action plan as a result of prior audit findings. Total questioned costs included in the single audit reports for the years ended June 30, 2010 and 2009 amounted to \$1,560,386 and \$3,470,455 respectively. The outcome of these findings and related program determinations are uncertain at this time. The PRDF is engaged in an ongoing settlement process with the HHS over potential claims arising from a variety of audits and program reviews over the last several years. None of these potential claims have been asserted or threatened. The settlement of the claims could require a potential payment in an amount that could be material.

The Independent Auditors' Report in the accompanying compliance section on pages 13 through 19 disclose several material weaknesses and significant deficiencies over both financial reporting and programmatic controls including instances of noncompliance with applicable laws and regulations.

The PRDF is also audited by the Office of the Comptroller for Puerto Rico (the "Comptroller") and the Office of the Inspector General (OIG) of the U.S. Department of Health and Human Services (HHS). The Comptroller and the OIG have issued several reports on audits over the operations and management of several federal programs of the PRDF.



**SUPPLEMENTARY INFORMATION**



**Aquino, De Córdova, Alfaro & Co., LLP**

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**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF THE FAMILY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

| <u>Federal Agency/Pass-Through Agency/Program Title</u>                                                   | <u>CFDA</u> | <u>Pass-Through Number</u> | <u>Federal Expenditures</u> |
|-----------------------------------------------------------------------------------------------------------|-------------|----------------------------|-----------------------------|
| <b>U.S. Department of Agriculture / Pass-through the Puerto Rico Department of Education</b>              |             |                            |                             |
| Child and Adult Care Food Program                                                                         | 10.558      | *                          | \$ 1,038,160                |
| <b>U.S. Department of Agriculture</b>                                                                     |             |                            |                             |
| <i>Nutrition Assistance Program for Puerto Rico Cluster:</i>                                              |             |                            |                             |
| Nutrition Assistance Program for Puerto Rico                                                              | 10.566      |                            | 1,751,046,939               |
| Nutrition Assistance Program for Puerto Rico                                                              | 10.566 ARRA |                            | <u>256,592,506</u>          |
|                                                                                                           |             |                            | 2,007,639,445               |
| <i>Emergency Food Assistance Program Cluster:</i>                                                         |             |                            |                             |
| Emergency Food Assistance Program (Administrative Cost)                                                   | 10.568      |                            | 1,760,678                   |
| Emergency Food Assistance Program (Administrative Cost)                                                   | 10.568 ARRA |                            | 758,526                     |
| Emergency Food Assistance Program (Commodities)                                                           | 10.569      |                            | 8,763,553                   |
| Emergency Food Assistance Program (Commodities)                                                           | 10.569 ARRA |                            | <u>34,136</u>               |
|                                                                                                           |             |                            | 11,316,893                  |
| <b>U.S. Department of Housing and Urban Development</b>                                                   |             |                            |                             |
| Emergency Shelter Grants Program                                                                          | 14.231      |                            | 3,655,495                   |
| Homelessness Prevention and Rapid Re-Housing Program                                                      | 14.257 ARRA |                            | 9,253,736                   |
| <b>U.S. Department of Housing and Urban Development / Pass-through the Puerto Rico Housing Department</b> |             |                            |                             |
| Public and Indian Housing                                                                                 | 14.850      | *                          | 2,723,395                   |
| <b>U.S. Department of Labor</b>                                                                           |             |                            |                             |
| Senior Community Service Employment Program                                                               | 17.235      |                            | 480,346                     |
| Youth Summer                                                                                              | 17.256      |                            | 145,368                     |
| Youth Activities                                                                                          | 17.259      |                            | 392,948                     |
| <b>U.S. Department of Health and Human Services</b>                                                       |             |                            |                             |
| Promoting Safe and Stable Families                                                                        | 93.556      |                            | 4,412,328                   |
| Temporary Assistance for Needy Families                                                                   | 93.558      |                            | 104,960,578                 |
| Family Support Payment to State-Assistance Payment                                                        | 93.560      |                            | 9,591,919                   |
| Child Support Enforcement                                                                                 | 93.563      |                            | 29,059,681                  |
| <i>CSBG Cluster:</i>                                                                                      |             |                            |                             |
| Community Service Block Grant                                                                             | 93.569      |                            | 35,279,831                  |
| Community Service Block Grant                                                                             | 93.569 ARRA |                            | <u>5,818,706</u>            |
|                                                                                                           |             |                            | 41,098,537                  |
| Low-Income Home Energy Assistance                                                                         | 93.568      |                            | 2,888,650                   |

See accompanying notes to the Schedule of Expenditures of Federal Awards



COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF THE FAMILY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| <u>Federal Agency/Pass-Through Agency/Program Title</u>     | <u>CFDA</u> | <u>Pass-Through Number</u> | <u>Federal Expenditures</u>   |
|-------------------------------------------------------------|-------------|----------------------------|-------------------------------|
| <b>CCDF Cluster:</b>                                        |             |                            |                               |
| Child Care and Development Block Grant                      | 93.575      |                            | 72,121,089                    |
| Child Care and Development Block Grant                      | 93.713 ARRA |                            | <u>19,588,007</u>             |
|                                                             |             |                            | 91,709,096                    |
| Community Based Family Resources Program                    | 93.590      |                            | 501,656                       |
| Access and Visitation Program Grant                         | 93.597      |                            | 35,892                        |
| Chafee Education and Training Voucher Program               | 93.599      |                            | 601,390                       |
| <b>Head Start Cluster:</b>                                  |             |                            |                               |
| Head Start                                                  | 93.600      |                            | 119,073,638                   |
| Head Start                                                  | 93.708 ARRA |                            | <u>7,972,288</u>              |
|                                                             |             |                            | 127,045,926                   |
| Adoption Incentive Payments                                 | 93.603      |                            | 107,526                       |
| Children Justice Grants to States                           | 93.643      |                            | 149,180                       |
| Child Welfare Services - State Grants                       | 93.645      |                            | 1,850,585                     |
| Foster Care - Title IV-E                                    | 93.658      |                            | 77,555                        |
| Adoption Assistance                                         | 93.659      |                            | 115,802                       |
| Social Services Block Grant                                 | 93.667      |                            | 22,202,720                    |
| Child Abuse and Neglect – State Grants                      | 93.669      |                            | 920,247                       |
| Domestic Violence                                           | 93.671      |                            | 1,346,876                     |
| Chafee Foster Care Independence Program                     | 93.674      |                            | 1,898,416                     |
| <b>U.S. Corporation for National and Community Services</b> |             |                            |                               |
| Retired Senior Volunteers                                   | 94.002      |                            | 34,572                        |
| <b>U.S. Social Security Administration</b>                  |             |                            |                               |
| Social Security -- Disability Insurance                     | 96.001      |                            | 6,296,918                     |
| <b>Total Federal Award Expenditures</b>                     |             |                            | <u><u>\$2,483,551,836</u></u> |

\* Pass-through number is not available

← Amount includes the value of commodities (Non-Cash Assistance)

See accompanying notes to the Schedule of Expenditures of Federal Awards



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**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF THE FAMILY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**NOTE A -BASIS OF ACCOUNTING**

OMB Circular A-133 requires the auditee to prepare a schedule of federal awards for the period covered by the auditee's financial statement. Further, at a minimum, the schedule shall provide total federal awards expended for each individual federal program and Catalog of Federal Domestic Assistance (CFDA) number or other identifying number when the CFDA information is not available.

The supplementary Schedule of Expenditures of Federal Awards (the "Schedule") has been prepared using the cash basis of accounting. It is drawn primarily from the PRDF's internal accounting records, which are the basis for the PRDF's Statement of Cash Receipts and Disbursements (the "Statement").

The Schedule includes one program for which receipts and disbursements are in the form of non-cash items. These non-cash items are valued in accordance with the guidelines established by the United States Department of Agriculture. The transactions for this program were not included in the PRDF's Statement.

**NOTE B -CLUSTER**

The Schedule identified some programs as clusters. A cluster of programs is comprised of federal programs with different CFDA numbers that are closely related programs and share common requirements.

**NOTE C-TRANSFERABILITY**

For purposes of the Schedule, the expenditures of the funds transferred from the Temporary Assistance for Needy Families (CFDA No. 93.558) to the Social Services Block Grant (CFDA No. 93.667) and to the Child Care and Development Block Grant (CFDA No. 93.575) in the amounts of \$5,258,339 and \$22,095,758 respectively, were included in the total expenditures of the receiving program.

**NOTE D -RECONCILIATION WITH THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENT**

The Schedule includes the amount of Food Commodities used for the Emergency Food Assistance Program. This amount is not included in the Statement of Cash Receipts and Disbursements. The total amount used during the fiscal year ended June 30, 2011 was \$8,797,689.

Reconciliation between the Schedule and the Statement is as follows:

|                                                                       |                         |
|-----------------------------------------------------------------------|-------------------------|
| Schedule of Expenditures of Federal Awards                            | \$ 2,483,551,836        |
| Less: Entitlement amount of Food Commodities                          | <u>8,797,689</u>        |
| Federal expenditures per Statement of Cash Receipts and Disbursements | <u>\$ 2,474,754,147</u> |



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**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF THE FAMILY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE E – FEDERAL AWARDS PASSED THROUGH TO SUB-RECIPIENTS**

| <u>CFDA</u> | <u>PROGRAM</u>                     | <u>NAME</u>                         | <u>AMOUNT</u> |
|-------------|------------------------------------|-------------------------------------|---------------|
| 93.556      | Promoting Safe and Stable Families | Clinica de Salud Mental             | \$ 1,330,267  |
| 93.558      | Temporary Assistance               | Municipio de Toa Baja               | 980,145       |
| 93.558      | Temporary Assistance               | Municipio de Carolina               | 836,535       |
| 93.569      | Community Service Block Grant      | Acción Social de Puerto Rico        | 13,572,424    |
| 93.569      | Community Service Block Grant      | Instituto Socioeconómico            | 11,700,677    |
| 93.569      | Community Service Block Grant      | Municipio de San Juan               | 6,011,143     |
| 93.569      | Community Service Block Grant      | Municipio Bayamón                   | 1,500,306     |
| 93.569 ARRA | Community Service Block Grant      | Acción Social de Puerto Rico        | 5,421,154     |
| 93.575      | Child Care and Development Block   | Programa Avance en Puerto Rico      | 1,951,809     |
| 93.575      | Child Care and Development Block   | Centro de Ayuda y Terapia al Niño   | 1,621,381     |
| 93.575      | Child Care and Development Block   | Servicios Sociales Episcopales      | 1,361,141     |
| 93.575      | Child Care and Development Block   | Municipio de Bayamón                | 1,291,264     |
| 93.575      | Child Care and Development Block   | Municipio de Arecibo                | 1,204,940     |
| 93.575      | Child Care and Development Block   | Municipio de Morovis                | 948,090       |
| 93.575      | Child Care and Development Block   | Municipio de Santa Isabel           | 944,833       |
| 93.575      | Child Care and Development Block   | Municipio de Guayama                | 625,935       |
| 93.575      | Child Care and Development Block   | Municipio de Canovanas              | 594,482       |
| 93.575      | Child Care and Development Block   | Municipio de Aguas Buenas           | 546,468       |
| 93.575      | Child Care and Development Block   | Universidad de Puerto Rico          | 536,000       |
| 93.575      | Child Care and Development Block   | Mi reino infantil                   | 520,076       |
| 93.575      | Child Care and Development Block   | Municipio Autonomo de San Sebastian | 511,018       |
| 93.600      | Head Start                         | Municipio de Arecibo                | 10,344,295    |
| 93.600      | Head Start                         | Municipio de Guayama                | 10,132,453    |
| 93.600      | Head Start                         | Programa Avance en Puerto Rico      | 8,157,625     |
| 93.600      | Head Start                         | Municipio de Toa Baja               | 7,595,869     |
| 93.600      | Head Start                         | Municipio de Orocovis               | 7,199,668     |
| 93.600      | Head Start                         | Municipio de Humacao                | 6,913,894     |
| 93.600      | Head Start                         | Municipio de Vega Baja              | 6,329,433     |
| 93.600      | Head Start                         | Fundación Desarrollo Hogar          | 5,982,704     |
| 93.600      | Head Start                         | Municipio Juana Diaz                | 5,737,705     |
| 93.600      | Head Start                         | Municipio de Cayey                  | 5,717,629     |
| 93.600      | Head Start                         | Municipio Autonomo Aguadilla        | 5,606,458     |
| 93.600      | Head Start                         | Municipio de Utuado                 | 5,353,920     |
| 93.600      | Head Start                         | Municipio Sabana Grande             | 4,608,031     |
| 93.600      | Head Start                         | Municipio Manati                    | 4,575,377     |
| 93.600      | Head Start                         | Municipio Peñuelas                  | 3,495,457     |
| 93.600      | Head Start                         | Municipio de Fajardo                | 3,298,717     |
| 93.600      | Head Start                         | Municipio Autonomo de San Sebastian | 3,115,501     |
| 93.600      | Head Start                         | Municipio de Barceloneta            | 2,867,470     |
| 93.600      | Head Start                         | Municipio de Dorado                 | 2,520,557     |
| 93.600      | Head Start                         | Consortio del Noreste               | 2,299,736     |
| 93.600      | Head Start                         | Municipio de Carolina               | 1,221,517     |



**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF THE FAMILY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**NOTE E – FEDERAL AWARDS PASSED THROUGH TO SUB-RECIPIENTS -  
CONTINUED**

| <u>CFDA</u>                       | <u>PROGRAM</u>    | <u>NAME</u>                  | <u>AMOUNT</u>         |
|-----------------------------------|-------------------|------------------------------|-----------------------|
| 93.708 ARRA                       | Head Start - ARRA | Municipio de Guayama         | 789,266               |
| 93.708 ARRA                       | Head Start - ARRA | Municipio de Fajardo         | 779,573               |
| 93.708 ARRA                       | Head Start - ARRA | Municipio de Manati          | 759,725               |
| 93.708 ARRA                       | Head Start - ARRA | Municipio Autónomo Aguadilla | 714,808               |
| 93.708 ARRA                       | Head Start - ARRA | Municipio de Peñuelas        | 600,164               |
| Subrecipients less than \$500,000 |                   |                              | 49,356,785            |
|                                   |                   |                              | <u>\$ 220,084,425</u> |







# Aquino, De Córdova, Alfaro & Co., LLP

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## **Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

Honorable Yanitsia Irizarry Méndez  
Secretary of the Department of the Family  
San Juan, Puerto Rico

We have audited the accompanying Statement of Cash Receipts and Disbursements (the "Statement") of the Department of the Family of the Commonwealth of Puerto Rico (the "PRDF") for the fiscal year ended June 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report on the Statement discloses that, as described in Note A to the Statement, the PRDF prepares its Statement on a cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the PRDF's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Statement but not for the purpose of expressing an opinion on the effectiveness of the PRDF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the PRDF's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned cost discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL AND ON  
COMPLIANCE AND OTHER MATTERS**



**Aquino, De Córdova, Alfaro & Co., LLP**

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such as there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses 2011-01 through 2011-05 and 2011-07 through 2011-22.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies 2011-06.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the PRDF's Statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provision was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings No. 2011-01 through 2011-22. The PRDF's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the PRDF's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management and officials of the Puerto Rico Department of the Family, the Commonwealth of Puerto Rico, the United States Department of Health and Human Services (cognizant agency), federal awarding agencies, pass-through entities, and other regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

March 23, 2012

*Aquino, De Cordova, Alfaro & Co. LLP*

Stamp number 2635076  
has been affixed to the  
original report





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**Independent Auditors' Report on Compliance  
with Requirements that could have Direct and Material Effect  
on each Major Program and on Internal Control over Compliance in  
Accordance with OMB Circular A-133**

Honorable Yanitsia Irizarry Méndez  
Secretary of the Department of the Family  
San Juan, Puerto Rico

## Compliance

We have audited the Puerto Rico Department of the Family's (the "PRDF") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the PRDF's major federal programs for the fiscal year ended June 30, 2011. The PRDF's major federal programs are identified in the summary of the auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the PRDF's management. Our responsibility is to express an opinion on the PRDF's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards general accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PRDF's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the PRDF's compliance with those requirements.

As described in the accompanying schedule of findings and questioned costs, the PRDF did not comply with requirements that are applicable to the following programs:

| Finding number | Compliance requirement (s)                                                                           | Program (s)                                                                                                                                              | CFDA                                                       |
|----------------|------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|
| 2011-02        | Allowable cost/Cost principle                                                                        | All Federal Programs                                                                                                                                     | All programs                                               |
| 2011-03        | Activities Allowed or Unallowed, Allowable Costs/Cost principle                                      | Public and Indian Housing                                                                                                                                | 14.850                                                     |
| 2011-04        | Cash Management                                                                                      | Community Service Block Grant, Child Care and Development Block Grant, Head Start, Social Service Block Grant                                            | 93.569, 93.575, 93.600, 93.667                             |
| 2011-05        | Cash Management                                                                                      | Emergency Food Assistance Program (Adm. Costs), Homelessness Prevention and Rapid Re-Housing Program, Head Start, Child Care and Development Block Grant | 10.568, 10.568 ARRA, 14.257 ARRA, 93.708 ARRA, 93.713 ARRA |
| 2011-06        | Eligibility                                                                                          | Public and Indian Housing                                                                                                                                | 14.850                                                     |
| 2011-07        | Equipment and Real Property Management                                                               | Public and Indian Housing, Community Service Block Grant, Social Service Block Grant                                                                     | 14.850, 93.569, 93.569 ARRA, 93.667                        |
| 2011-08        | Activities Allowed or Unallowed, Allowable Cost/Cost principle, Procurement Suspension and Debarment | Public and Indian Housing                                                                                                                                | 14.850                                                     |
| 2011-09        | Activities Allowed or Unallowed, Allowable Cost/Cost principle, Procurement Suspension and Debarment | Social Service Block Grant                                                                                                                               | 93.667                                                     |
| 2011-10        | Reporting                                                                                            | Nutrition Assistance Program for Puerto Rico                                                                                                             | 10.566, 10.566 ARRA                                        |
| 2011-11        | Reporting                                                                                            | Emergency Food Assistance Program (Adm. Cost)                                                                                                            | 10.568                                                     |
| 2011-12        | Reporting                                                                                            | Homelessness Prevention and Rapid Re-Housing Program (ARRA)                                                                                              | 14.257                                                     |
| 2011-13        | Reporting                                                                                            | Child Support Enforcement                                                                                                                                | 93.563                                                     |
| 2011-14        | Reporting                                                                                            | Community Services Block Grant                                                                                                                           | 93.569, 93.569 ARRA                                        |
| 2011-15        | Reporting                                                                                            | Head Start (ARRA), Child Care and Development Block Grant (ARRA)                                                                                         | 93.600, 93.708 ARRA 93.575, 93.713 ARRA                    |
| 2011-16        | Reporting                                                                                            | Head Start                                                                                                                                               | 93.600                                                     |
| 2011-17        | Reporting                                                                                            | Child Care and Development Block Grant                                                                                                                   | 93.575                                                     |
| 2011-18        | Reporting                                                                                            | Social Services Block Grant                                                                                                                              | 93.667                                                     |
| 2011-19        | Reporting                                                                                            | Child Care and Development Block Grant (ARRA)                                                                                                            | 93.713 ARRA                                                |
| 2011-20        | Reporting                                                                                            | Temporary Assistance for Needy Families<br>Family Support Payment to States- Assistance Payments                                                         | 93.558<br>93.560                                           |
| 2011-21        | Sub-recipient Monitoring                                                                             | Community Services Block Grant                                                                                                                           | 93.569, 93.569 ARRA                                        |
| 2011-22        | Eligibility, Special Test and Provisions                                                             | Child Support Enforcement                                                                                                                                | 93.563                                                     |



Compliance with such requirements is necessary, in our opinion, for the PRDF to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described above, the PRDF complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as finding 2011-01 through 2011-22.

### **Internal Control Over Compliance**

Management of the PRDF is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the PRDF's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the PRDF's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and question costs as Findings No. 2011-01 through 2011-05 and 2011-07 through 2011-22 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding No. 2011-06 to be a significant deficiency.



The PRDF's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the PRDF's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the management and officials of the Puerto Rico Department of the Family, the Commonwealth of Puerto Rico, the United States Department of Health and Human Services (cognizant agency), federal awarding agencies, pass-through entities, and other regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

March 23, 2012

*Aquino, De Córdoba, Alfaro & Co. LLP*

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original report



**Aquino, De Córdoba, Alfaro & Co., LLP**

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



**Aquino, De Córdova, Alfaro & Co., LLP**

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS



**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF THE FAMILY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Summary of Auditors' Results**

- 1- The independent auditors' report on the Statement of Cash Receipts and Disbursements expressed an unqualified opinion. In addition, it reported that such statement was prepared using the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- 2- Significant deficiencies on internal control over financial reporting were identified, some of which are considered material weaknesses.
- 3- Instances of noncompliance considered material to the financial statements were disclosed by the audit.
- 4- Reports issued on compliance with requirements applicable to major federal award programs expressed the following types of opinion on each major program:

| CFDA        | Program                                                 | Type of opinion |
|-------------|---------------------------------------------------------|-----------------|
|             | <b><i>Nutrition Assistance Cluster:</i></b>             |                 |
| 10.566      | Nutrition Assistance Program for Puerto Rico            | Qualified       |
| 10.566ARRA  | Nutrition Assistance Program for Puerto Rico            |                 |
|             | <b><i>Emergency Food Assistance Cluster:</i></b>        |                 |
| 10.568      | Emergency Food Assistance Program (Administrative Cost) | Qualified       |
| 10.568 ARRA | Emergency Food Assistance Program (Administrative Cost) |                 |
| 10.569      | Emergency Food Assistance Program (Commodities)         |                 |
| 10.569 ARRA | Emergency Food Assistance Program (Commodities)         |                 |
| 14.257 ARRA | Homelessness Prevention and Rapid Re-Housing            | Qualified       |
| 14.850 (1)  | Public and Indian Housing (1)                           | Qualified       |
| 93.558      | Temporary Assistance for Needy Families                 | Qualified       |
| 93.560      | Family Support Payment to States- Assistance Payment    | Qualified       |
| 93.563      | Child Support Enforcement                               | Qualified       |
|             | <b><i>CSBG Cluster:</i></b>                             |                 |
| 93.569      | Community Service Block Grant                           | Qualified       |
| 93.569 ARRA | Community Service Block Grant                           |                 |
|             | <b><i>CCDF Cluster:</i></b>                             |                 |
| 93.575      | Child Care and Development Block Grant                  | Qualified       |
| 93.713 ARRA | Child Care and Development Block Grant                  |                 |
|             | <b><i>Head Start Cluster:</i></b>                       |                 |
| 93.600      | Head Start                                              | Qualified       |
| 93.708 ARRA | Head Start                                              |                 |
| 93.667      | Social Service Block Grant                              | Qualified       |

(1) The U.S Department of Housing has required this program be audited has a major program.



**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF THE FAMILY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Summary of Auditors' Results – continued**

- 5- The audit disclosed findings required to be reported under the OMB Circular A-133.
- 6- A threshold of \$7,450,656 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
- 7- The PRDF did not qualify as a low-risk auditee as this term is defined in OMB Circular A-133.
- 8- The PRDF's major programs were the followings:

| CFDA        | Program                                                 | Questioned<br>Costs |
|-------------|---------------------------------------------------------|---------------------|
|             | <i><b>Nutrition Assistance Cluster:</b></i>             |                     |
| 10.566      | Nutrition Assistance Program for Puerto Rico            | \$ -                |
| 10.566 ARRA | Nutrition Assistance Program for Puerto Rico            |                     |
|             | <i><b>Emergency Food Assistance Cluster:</b></i>        |                     |
| 10.568      | Emergency Food Assistance Program (Administrative Cost) |                     |
| 10.558 ARRA | Emergency Food Assistance Program (Administrative Cost) |                     |
| 10.569      | Emergency Food Assistance Program (Commodities)         |                     |
| 10.569 ARRA | Emergency Food Assistance Program (Commodities)         |                     |
| 14.257 ARRA | Homelessness Prevention and Rapid Re-Housing            |                     |
| 14.850      | Public and Indian Housing                               |                     |
| 93.558      | Temporary Assistance for Needy Families                 |                     |
| 93.560      | Family Support Payment to States- Assistance Payment    |                     |
| 93.563      | Child Support Enforcement                               |                     |
|             | <i><b>CSBG Cluster:</b></i>                             |                     |
| 93.569      | Community Service Block Grant                           |                     |
| 93.569 ARRA | Community Service Block Grant                           |                     |
|             | <i><b>CCDF Cluster:</b></i>                             |                     |
| 93.575      | Child Care and Development Block Grant                  |                     |
| 93.713      | Child Care and Development Block Grant                  |                     |
|             | <i><b>Head Start Cluster:</b></i>                       |                     |
| 93.600      | Head Start                                              |                     |
| 93.708 ARRA | Head Start                                              |                     |
| 93.667      | Social Service Block Grant                              |                     |
|             |                                                         | -                   |
|             |                                                         | \$ -                |



**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF THE FAMILY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

|                                |                                                                                                                                                                                                                                            |
|--------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Finding Number:</b>         | <i>2011-01</i>                                                                                                                                                                                                                             |
| <b>Finding Type:</b>           | <i>Financial Statements and Federal Awards</i>                                                                                                                                                                                             |
| <b>Federal Program:</b>        | <i>All federal programs</i>                                                                                                                                                                                                                |
| <b>Category:</b>               | <i>Internal Control - Material Weakness</i>                                                                                                                                                                                                |
| <b>Compliance Requirement:</b> | <i>Special Test and Provisions</i>                                                                                                                                                                                                         |
| <b>Administration:</b>         | <i>The Secretariat, Administration for the Socioeconomic Development, Administration for Families and Children, Administration for the Integral Care and Development of the Children, Administration for the Child Support Enforcement</i> |

**Criteria**

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

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

20 CFR 437.2 – (b) (2) establish grantees and sub grantees must maintain records that adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.



**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF THE FAMILY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**Condition**

The PRDF maintains its accounting records in PRIFAS which is the official accounting system of the Commonwealth of Puerto Rico.

During our audit procedures for the year ended June 30, 2011, we noted the following related to the accounting policies, procedures, and financial reporting practices of the PRDF:

- There is a lack of a self-balancing set of accounts for each fund to record cash and other financial resources, related liabilities, residual equities or balances, and any related changes there-in. The accounts are not segregated sufficiently to cover a specific activity or objective in accordance with special regulations, restrictions, or limitations.
- The PRDF has inappropriate and/or incomplete cut-off procedures, as well as incomplete month-end and year-end closing procedures. Many transactions are posted months after the applicable closing, with a retroactive effect. In this regard, a significant amount of journal vouchers is processed.
- The PRDF has inappropriate and/or incomplete budgeting control between grants award distribution and programmatic activities allocations. In various federal programs we were unable to verify its compliance with certain percentages limitations as required by applicable regulations.

**Effect**

The lack of adequate accounting and financial reporting practices and policies causes the PRDF to be unable to prepare accurate and complete financial reports.

**Questioned costs**

Could not be determined

**Recommendation**

The PRDF shall enhance its accounting and financial reporting practices and policies to provide for accurate and complete financial information. In coordination with the Department of Treasury of the Commonwealth of Puerto Rico (PRDT), the PRDF should implement an accounting and financial reporting system that permits the preparation of financial reports required by the different oversight entities including the need to supply information to the Commonwealth of Puerto Rico for its government wide reporting.



**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF THE FAMILY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**Recommendation- continued**

The PRDF should perform monthly reconciliations of transactions recorded in the general ledger (PRIFAS) with the transactions recorded in the subsidiary ledger. Any reconciling item should be investigated and disposed of as deemed necessary, on a timely basis.

The PRDF should evaluate and expand the chart of accounts to provide for identification of the amount expended for each program separately. The expansion of the chart of accounts should permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of each program.

The PRDF should contact the Clearinghouse and the Federal agencies to ensure that the presentation of the financial statements prepared on a cash basis is acceptable.

**Management's Response**

See Corrective Action Plan.



**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF THE FAMILY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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|                                |                                                                                                                        |
|--------------------------------|------------------------------------------------------------------------------------------------------------------------|
| <b>Finding Number:</b>         | <i>2011-02</i>                                                                                                         |
| <b>Finding Type:</b>           | <i>Financial Statements and Federal Awards</i>                                                                         |
| <b>Federal Program:</b>        | <i>All federal programs</i>                                                                                            |
| <b>Category:</b>               | <i>Internal Control – Material Weakness and Material Noncompliance</i>                                                 |
| <b>Compliance Requirement:</b> | <i>Allowable Cost/Cost Principle</i>                                                                                   |
| <b>Administration:</b>         | <i>The Secretariat, Administration for Families and Children,<br/>Administration for the Child Support Enforcement</i> |

**Criteria**

OMB Circular A-87 "Attachment 13 (8)(h) (3 and 4)" establishes that employees certificates must be obtained for employees whose salaries or wages have been charged to a federal program. If employees worked solely on one federal program and 100% of their salary or wages are charged to the program, PRDF must obtain a certification. These certifications shall be prepared at least semi-annually and should be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee. This certification must be kept on the employee's file.

In addition, if employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- a) more than one federal award,
- b) a federal award and a non-federal award,
- c) an indirect cost activity and a direct cost activity,
- d) two or more indirect activities which are allocated using different allocation bases, or
- e) an unallowable activity and a direct or indirect cost activity.

Personnel activity reports or equivalent documentation must meet the following standards:

- a) they must reflect an after-the-fact distribution of the actual activity of each employee,
- b) they must account for the total activity for which each employee is compensated,
- c) they must be prepared at least monthly and must coincide with one or more pay periods,  
and
- d) they must be signed by the employee.



**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF THE FAMILY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**Condition**

We noted that the PRDF does not have adequate supporting documentation to substantiate payroll costs claimed for federal reimbursement. The PRDF has not established a process to obtain certifications from employees who work solely on a single federal program in order to verify that they spent 100% of their time on this federal program. No certifications were made for any employee throughout the fiscal year.

**Effect**

The PRDF is not in compliance with federal allowability guidelines to allocate employee salaries and wages to grants based on actual time spent by employees working on each program. In addition, inadequate documentation and lack of required certifications may result in the federal funds being expended for unallowable purpose.

**Questioned costs**

Could not be determined

**Recommendation**

We recommended the PRDF to implement procedures and controls to ensure that time and effort certifications are obligated from the employees at least a semi-annually, stating the percentage of time worked in a specific program during the period covered by the certification.

**Management's Response**

See Corrective Action Plan



**COMMONWEALTH OF PUERTO RICO**  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
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|--------------------------------|------------------------------------------------------------------------|
| <b>Finding Number:</b>         | <i>2011-03</i>                                                         |
| <b>Finding Type:</b>           | <i>Financial Statements and Federal Awards</i>                         |
| <b>CFDA:</b>                   | <i>14.850</i>                                                          |
| <b>Federal Program:</b>        | <i>Public and Indian Housing Program</i>                               |
| <b>Category:</b>               | <i>Internal Control – Material Weakness and Material Noncompliance</i> |
| <b>Compliance Requirement:</b> | <i>Activities allowed or unallowed, allowable cost/cost principles</i> |
| <b>Administration:</b>         | <i>Administration for Families and Children</i>                        |

**Criteria**

Section C (1) (j) of the OMB Circular A-87 "Factors affecting allowability of costs" establishes that to be allowable under Federal awards, costs must be adequately documented.

CFR 7, Part 3016 – Subpart C "Post-Award Requirements" – Section 3016.20 "Standards for financial management systems", and 45 CFR 92.20 (b) (2) establishes that:

- (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- (3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
- (6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

Section (b) (1) of CFR 7 3016.36 and 45 CFR 92.36 (b) establish that Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.

