DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Memorandum

Date OCT - 5 2001

From Janet Rehnquist
Inspector General

Subject Review of the Puerto Rico Treasury Department Expired Uncashed Checks (A-02-99-02004)

To Dennis P. Williams
Acting Assistant Secretary
for Management and Budget

This is to alert you to the issuance of our final report on Tuesday, October 9, 2001. A copy is attached. The objectives of our review were to determine: (1) whether adequate controls had been implemented to ensure that the Federal Government was promptly credited for expired uncashed checks that had originally been charged to Federal programs; and (2) the credit due the Federal Government for expired uncashed checks for Fiscal Year (FY) 1994 and, if warranted, calculate any credits due the Federal Government for FYs 1995 through 1998. We extended our work, on a limited basis, to obtain information on the adequacy of controls in FYs 1999 and 2000 as well.

The accounting system of the Commonwealth of Puerto Rico is administered by the Puerto Rico Treasury Department (PRTD). The PRTD is responsible for controlling and accounting for State and Federal funds to State agencies. This department is also responsible for issuing payroll checks to State employees, issuing vendor checks on behalf of the Commonwealth, and working with special disbursing officers located at State agencies to pay program benefits and other minor non-payroll expenses.

In three previous audits covering a 17-year period, July 1976 through June 1993, we identified serious control deficiencies at PRTD and State agencies with respect to identifying, reporting, and crediting the Federal Government for its share of expired uncashed checks that were originally charged to Federal programs when the checks were issued. However, since the checks were not cashed and became void, the State did not incur the expenses. These prior reviews showed that PRTD had not taken adequate steps to address our previous findings and ensure that the Federal Government was promptly credited for its share of expired uncashed checks. The last report we issued covering the period July 1, 1986, through June 30, 1993, (CIN: A-02-94-02000) resulted in PRTD refunding $28.8 million to the Federal Government. In response to all three reports, PRTD assured us that it would implement corrective action.

During our current audit, which covered the period July 1, 1993, to June 30, 1998, we found that PRTD had made no significant progress in ensuring that the Federal Government received proper credit for expired uncashed checks. We determined that State agencies did not take action to ensure that expired uncashed check listings were obtained, analyzed, and necessary accounting entries and financial status report (FSR)

adjustments were processed. Also, we found that PRTD did not establish effective monitoring to ensure that Federal programs received appropriate credit for expired uncashed checks. In addition, our limited inquires about conditions and controls in FYs 1999 and 2000 identified that the same types of weaknesses continued to exist.

We recommended that Puerto Rico: (1) work with the Department of Health and Human Services' (HHS) Office of Audit Resolution and Cost Policy to develop a corrective action plan which fully addresses all action needed to ensure timely processing of expired uncashed checks in future periods; (2) refund the estimated credit of $1,959,261 due the Federal Government for FY 1994; and (3) compute the actual credit due the Federal Government for FYs 1995 to present or reach a negotiated settlement with the Department.

We received comments from PRTD (see Appendix B). The PRTD officials indicated that it is in their best interest to make the necessary corrections to be in compliance with Federal regulations regarding the handling of expired uncashed checks. In addition, PRTD has accepted our computation of the credit due the Federal Government for FY 1994 and stated that since PRTD is under a new administration, they would like the opportunity to compute the actual credit due the Federal Government for subsequent years.

Any questions or comments on any aspect of this memorandum are welcome. Please address them to Donald L. Dille, Assistant Inspector General for Administrations of Children, Family, and Aging Audits, at (202) 619-1175.

Attachment

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF THE PUERTO RICO TREASURY DEPARTMENT EXPIRED UNCASHED CHECKS FOR THE PERIOD JULY 1, 1993 THROUGH JUNE 30, 2000

JANET REHNQUIST
INSPECTOR GENERAL

OCTOBER 2001
A-02-99-02004

Office Of Inspector General
Office Of Audit Services

DEPARTMENT OF HEALTH & HUMAN SERVICES

Region II
Jacob K. Javits Federal Building
26 Federal Plaza
New York, NY 10278

Our Reference: Common Identification No. A-02-99-02004

The Honorable Juan A. Flores Galarza
Secretary of the Puerto Rico Department of the Treasury
P.O. Box 50067
San Juan, Puerto Rico 00902-6267

Dear Mr. Flores Galarza:

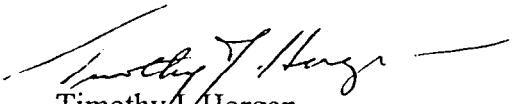
Enclosed are two copies of the U.S. Department of Health and Human Services, Office of the Inspector General, Office of Audit Services' final report entitled "Review Of The Puerto Rico Treasury Department Expired Uncashed Checks For The Period July 1, 1993 Through June 30, 2000." A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to Common Identification Number A-02-99-02004 in all correspondence relating to this report.

Sincerely yours,



Timothy J. Horgan
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Joseph E. Cook, Jr.
Director, Office of Audit Resolution
And Cost Policy/OGM
Department of Health and Human Services
Room 522E
200 Independence Avenue SW
Washington, DC 20201

EXECUTIVE SUMMARY

Background

The accounting system of the Commonwealth of Puerto Rico is administered by the Puerto Rico Treasury Department (PRTD). The PRTD is responsible for controlling and accounting for State and Federal funds to State agencies. This department is also responsible for issuing payroll checks to State agency employees, issuing vendor checks on behalf of the Commonwealth, and working with special disbursing officers located at State agencies to pay program benefits and other minor non-payroll expenses.

The Office of Management and Budget Circular No. A-87, Cost Principles for State and Local Governments, Section C.1.i. and C.4.a. provides that, to be allowable under Federal awards, costs must be net of all applicable credits. Applicable credits include checks, representing costs previously charged to Federal programs, which have not been cashed and are considered void or expired. The PRTD considers all checks that have not been cashed within 6 months from the issue date to be void and therefore expired. In Puerto Rico, for Federal programs to receive credit for expired uncashed checks, PRTD must provide State agencies with complete listings of these checks in a timely manner. The State agencies must review the listings and take specific action to credit Federal programs. To ensure that State agencies promptly process the listings and appropriately credit Federal programs, PRTD must have a monitoring and oversight role.

During three previous audits, covering a 17-year period from July 1976 through June 1993, we identified serious control deficiencies at PRTD and State agencies with respect to identifying, reporting, and crediting the Federal Government for its share of expired uncashed checks. These prior reviews showed that PRTD did not take adequate steps to ensure that the Federal Government was promptly credited for its share of expired uncashed checks that were originally charged to Federal programs when the checks were issued. The Federal Government was entitled to a credit because the State did not incur the expenses when the checks were not cashed and became void. The last report we issued covering the period July 1, 1986, through June 30, 1993 (CIN: A-02-94-02000) resulted in PRTD refunding $28.8 million to the Federal Government. In response to all three reports, PRTD assured us that they would implement corrective action.

The Department of Health and Human Services (HHS), Office of Audit Resolution and Cost Policy requested that we determine whether adequate controls had been placed in operation to ensure that Federal programs received timely credits for expired uncashed checks during the period July 1, 1993, through June 30, 1998. Because our last report was issued in August 1994 and PRTD would not have had an opportunity to implement corrective actions for the period July 1, 1993 through June 30, 1994, officials from the Office of Audit Resolution and Cost Policy amended their request and asked us to determine the credit due the Federal Government for expired uncashed checks for Fiscal Year (FY) 1994 and, if warranted,

calculate any credits due the Federal Government for expired uncashed checks for FYs 1995 through 1998.

Objectives

The objectives of our review were to determine: (1) whether adequate controls had been implemented to ensure that the Federal Government was promptly credited for expired uncashed checks that had originally been charged to Federal programs; and (2) the credit due the Federal Government for expired uncashed checks for FY 1994 and, if warranted, calculate any credits due the Federal Government for FYs 1995 through 1998. We extended our work, on a limited basis, to obtain information on the adequacy of controls in FYs 1999 and 2000 as well.

Summary of Findings

During our current audit, which covered the period July 1, 1993, to June 30, 1998, we found that PRTD had made no significant progress in ensuring that the Federal Government received proper credit for expired uncashed checks. We determined that State agencies did not take action to ensure that expired uncashed check listings were obtained, analyzed, and necessary accounting entries and financial status report adjustments were processed. We also found that PRTD did not establish effective monitoring to ensure that Federal programs received appropriate credit for expired uncashed checks. In addition, our limited inquiries about conditions and controls in FYs 1999 and 2000 identified that the same types of weaknesses existed in these years.

For FY 1994, we requested that PRTD provide us with the actual credit due the Federal Government. The PRTD advised us that they could not do so because it would require State agencies to review and analyze 27,450 expired uncashed checks to determine the accounts charged and whether Federal programs were involved. The PRTD felt that this check-by-check analysis would be too labor intensive and time consuming. However, PRTD officials worked with us to develop a methodology to determine an approximate credit that could serve as a basis for reaching a negotiated settlement. Through this methodology, we estimated a credit due of $1,959,261 for FY 1994. The PRTD will need to resolve the amount due to the Federal Government for FY 1994 as well as FY 1995 through the present.

Our audit disclosed that PRTD did not have a system in place to ensure that Federal programs were credited for expired uncashed checks. In effect, Federal programs did not receive credit for expired uncashed checks. These weaknesses at both PRTD and the State agencies for which it administers funds contributed to yet another multi-year period where PRTD is out of compliance. We view the continued inability of PRTD and the State agencies, which it oversees, to implement effective corrective action as a very serious matter.

Recommendations

We recommend that PRTD:

1. Work with the Office of Audit Resolution and Cost Policy to develop a corrective action plan which fully addresses all action needed to ensure timely processing of expired uncashed checks in future periods.

2. Refund the estimated credit of $1,959,261 due the Federal Government for FY 1994.

3. Compute the actual credit due the Federal Government for FY 1995 to present or reach a negotiated settlement with the Office of Audit Resolution and Cost Policy.

Auditee Comments

The full text of PRTD's comments are contained in Appendix B. In summary, PRTD officials indicated that it is in their best interest to make the necessary corrections to be in compliance with Federal regulations regarding the handling of expired uncashed checks. With respect to developing controls, PRTD has prioritized this effort and has developed a strategic plan for implementation during the current FY. The PRTD also indicated it has had discussions with officials responsible for issuing checks to explore the possibility of programming State payroll systems to have checks issued from Federal funds automatically cancelled when they expire. In addition, PRTD has accepted our computation of the credit due the Federal Government for FY 1994 and stated that since PRTD is under a new administration they would like the opportunity to compute the actual credit due the Federal Government for subsequent years.

OIG Comments

We are pleased that the new administration at PRTD has made the correction of the problem of handling expired uncashed checks as a priority for the current FY. However, we are concerned that this problem, which has existed for 25 years, has resulted in considerable overcharges to the Federal Government.

In developing and implementing a strategic plan to address this matter, we continue to recommend that PRTD work with officials from the Office of Audit Resolution and Cost Policy. Any system developed must provide for timely cancellation of the checks, prompt crediting of Federal programs, and an effective monitoring system to ensure that controls are working as intended. Also, as discussed in this report, the plan must address checks written from both Federal and State accounts.

With respect to the credit due the Federal Government for FY 1994, PRTD accepted the $1,959,261 computed amount and PRTD should formally request that the Office of Audit Resolution and Cost Policy consider this amount in settlement of FY 1994.

The PRTD also requested an opportunity to compute the credit due for FYs 1995 through 2000. We point out that FY 2001 would also need to be computed. We are skeptical that PRTD can compute the actual credit due the Federal Government for this multi-year period based on our experiences during this audit. However, if PRTD's request is granted, we believe that time frames for the computations should be set and agreement reached on the method and procedures to be used in calculating the multi-year credit due the Federal Government along with imputed interest.

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APPENDICES

A. Methodology For Determining a Reasonable Approximation Of The FY 1994 Credit Due The Federal Government

B. Auditee Comments To Draft Report

INTRODUCTION

Background

The accounting system of the Commonwealth of Puerto Rico is administered by PRTD. The PRTD is responsible for controlling and accounting for State and Federal funds granted to State agencies. This department is also responsible for issuing payroll checks to State agency employees, issuing vendor checks on behalf of the Commonwealth, and working with special disbursing officers (SDO) located at State agencies to pay program benefits and other minor non-payroll expenses.

For Fiscal Year (FY) 1994, PRTD serviced 57 State agencies that expended $4.4 billion of which Federal funds amounted to $1.9 billion or 43 percent. For FY 1998, PRTD serviced 63 State agencies that expended $6.6 billion of which Federal funds amounted to $2.6 billion or 39 percent. The following 5 Federal programs represented 79 percent of Federal expenditures for FY 1994 and 70 percent for FY 1998.

Federal Program	Federal Agency
Nutrition Assistance Program for Puerto Rico (1)	Department of Agriculture
Chapter I Programs-Local Education Agencies (2)	Department of Education
National School Lunch Program (2)	Department. of Agriculture
Special Supplemental Food Program for Woman (3)	Department of Agriculture
Family Support Program to States (1)	Department of Health and Human Services

The Office of Management and Budget Circular No. A-87, Cost Principles for State and Local Governments, Section C.1.i. and C.4.a. provides that, to be allowable under Federal awards, costs must be net of all applicable credits. Applicable credits include checks, representing costs previously charged to Federal programs, which have not been cashed and are considered void or expired. The PRTD considers all checks that have not been cashed within 6 months from the issue date to be void and therefore expired. In Puerto Rico, for the Federal programs to receive their share of the expired uncashed checks, PRTD must provide the various State agencies with complete listings of the expired uncashed checks in a timely manner. The State agencies must review the listings and take specific action to credit Federal programs. To ensure that the State agencies promptly process the listings and appropriately credit Federal programs, PRTD must have a monitoring and oversight role.

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1 The Puerto Rico Department of the Family administered the Nutrition Assistance Program and the Family Support Program.
2 The Chapter I Programs and the National School Lunch Program were administered by the Puerto Rico Department of Education.
3 The Special Supplemental Food Program was administered by the Department of Health of Puerto Rico.

In three previous audits by this office spanning a 17-year period from July 1976 to June 1993, we repeatedly identified serious control deficiencies at PRTD and State agencies with respect to identifying, reporting, and crediting the Federal Government for its share of expired uncashed checks. These reviews are summarized as follows:

1. On November 17, 1981, we issued an audit report (ACN: 02-20603) on the analysis of expired uncashed checks by PRTD during the period July 1, 1976, through June 30, 1979. This report indicated that the Federal Government was not receiving credit for its share of expired uncashed checks. The report attributed this finding to a lack of coordination between PRTD and the State agencies caused by PRTD's failure to provide State agencies with information pertaining to the expired uncashed checks. Recommendations were made to address this matter. No financial adjustments were recommended. The PRTD assured us that corrective action would be implemented.

2. We performed a follow-up review, which covered the period July 1, 1979, through June 30, 1986, to determine the extent and adequacy of actions taken to address our previous findings. The results of this follow-up review were reported in audit report CIN: A-02-86-60601. This report concluded that PRTD had not taken adequate steps to ensure the Federal Government was promptly credited for its share of expired uncashed checks. We recommended that PRTD needed to continue to produce and distribute the monthly computer printout report of expired uncashed checks on a timely basis to Commonwealth agencies for analysis and determination of credits due Federal programs from both Federal and State accounts. We also recommended that PRTD provide specific instructions to Commonwealth agencies and PRTD personnel as to the purpose, contents, processing, distribution, and use of these monthly computer printouts. No financial adjustments were recommended. The PRTD assured us that corrective action would be implemented.

3. In October 1993, we initiated another review, which covered the period July 1, 1986 through June 30, 1993, to assess PRTD's procedures for processing credits to the Federal Government arising from expired uncashed checks. This review, performed under CIN: A-02-94-02000, disclosed that PRTD had failed to implement adequate corrective actions and, as a result, the Federal Government did not receive credit for its share of expired uncashed checks. A financial settlement of $28.8 million was reached between the Office of Audit Resolution and Cost Policy and PRTD. We were once again assured that corrective action would be initiated by PRTD.

Objectives, Scope, And Methodology

The Office of Audit Resolution and Cost Policy requested that we determine whether adequate controls had been placed in operation to ensure that Federal programs received timely credits for expired uncashed checks during the period July 1, 1993, through June 30, 1998. Because our last report was issued in August 1994 and PRTD would not have had an opportunity to implement corrective actions for the period July 1, 1993, through June 30, 1994, officials from the Office of Audit Resolution and Cost Policy amended their request and asked us to determine the credit due the Federal Government for expired uncashed checks for FY 1994 and, if warranted, calculate any credits due the Federal Government for expired uncashed checks through FY 1998.

The objectives of our review were to:

1. Determine whether adequate controls had been implemented to ensure that Federal programs were properly credited on a timely basis for expired uncashed checks.

2. Determine the credit due the Federal Government for expired uncashed checks for FY 1994 and, if warranted, calculate any credits due the Federal Government for FYs 1995 through 1998.

To accomplish our objectives, we:

- Met with Office of Audit Resolution and Cost Policy officials and discussed the objectives of our review.

- Met with representatives of PRTD to discuss our audit and obtain relevant information on controls and procedures they had developed for processing expired uncashed checks and crediting Federal programs.

- Documented the system of internal controls over the processing of expired uncashed checks and for crediting appropriate Federal programs.

- Performed tests to determine whether the controls were working as intended. As part of this effort, we:

    1. Obtained information on the volume and dollar amount of expired uncashed checks for our audit period.

    2. Interviewed officials to gain an understanding of the controls placed in operation.

    3. Tested a judgmental sample of expired uncashed checks to determine whether procedures for crediting appropriate programs had been followed.

Our review was performed in accordance with generally accepted government auditing standards.

Because PRTD could not determine the actual credit due the Federal Government for FY 1994, we developed a reasonable approximation of the credit due the Federal Government that officials of PRTD and the Office of Audit Resolution and Policy may want to use in reaching a negotiated settlement. Because of a lack of needed information, we were also unable to calculate the actual credit due the Federal Government for FYs 1995 through 1998. However, we believe the methodology used to calculate the FY 1994 credit provides a basis for the parties to reach a negotiated settlement if additional needed information is furnished.

Although not requested, we made limited inquiries about any significant changes in the level of controls with respect to expired uncashed checks for FYs 1999 and 2000 in order to bring matters up to date.

Our initial fieldwork was performed during the period May 1999 to June 2000. Additional fieldwork was performed during the period December 2000 to April 2001.

FINDINGS AND RECOMMENDATIONS

CREDITS TO FEDERAL PROGRAMS FOR EXPIRED UNCASHED CHECKS

Our audit disclosed that no significant progress had been made by PRTD in ensuring that the Federal Government received proper credit for expenditures that were originally charged to Federal programs, but subsequently, the underlying checks were not cashed and the checks became void. As such, those expenditures charged to Federal programs had not in fact been incurred. In three prior reports covering a period of 17 years, we had reported similar findings and each time corrective action was assured. We view the continued inability of PRTD and the State agencies, which it oversees, to implement effective corrective action as a very serious matter.
It is the policy of PRTD to consider checks which have not been cashed within 6 months from the date of issuance to be void or expired. In fact, all issued checks contain an issue date as well as a date when the check will expire. During our audit period of July 1, 1993, to June 30, 1998, we obtained information from PRTD records on the number and dollar amount of expired uncashed checks as follows:

Fiscal Year	# of Expired Uncashed Checks	Amount
1994	27,450	$6,996,052 (4)
1995	19,622	5,221,961
1996	26,834	8,051,666
1997	33,977	8,138,211 (4)
1998	19,278	8,331,888
Total	127,161	$36,739,778

4 The number and dollar amount of expired uncashed checks for FYs 1994 and 1997 includes SDO checks. The number and dollar amount for FYs 1995, 1996, and 1998 does not include SDO checks because this data was not readily available.

The above schedule represents by FY the number and dollar amount of checks that were void or expired because the checks had been outstanding for more than 6 months from the date of issuance. The totals include checks that pertain to Federal programs as well as State only programs. However, PRTD did not have information available that would demonstrate whether credits had been processed for the expired uncashed checks.

As a starting point for our audit, we reviewed our prior audit report dated August 1994 entitled "Review of the Puerto Rico Treasury Department Escheated Warrants for the Period July 1, 1986, through June 30, 1993." In that report, which resulted in a $28.8 million settlement for uncashed checks, we recommended that the reports of expired uncashed checks be circulated on a timely basis to State agencies and that guidance be provided to instruct them on the processing of these checks. We stressed that State agencies needed to assign responsibility for the receipt and analysis of the reports and that timely processing of credits due the Federal Government should occur. We also recommended that PRTD establish procedures to monitor the State agencies' compliance with its instructions on the processing of the expired uncashed check reports. In its response, PRTD basically accepted the above recommendations and indicated that a modernization of the payroll system and adoption of the Cash Management Improvement Act (CMIA) whereby Federal funds would not be drawn down until the check cleared the bank would help correct the issue of uncashed checks.

Action Taken by PRTD

As part of our review, we made inquiries about new controls and procedures that had been implemented since our last audit. We were advised that on September 21, 1994, PRTD issued a policy guidance letter (Number 1300-7-95) to the Secretaries and Directors of Government Entities of the Government of Puerto Rico. The letter provided the following guidance to the State agencies regarding the handling of expired uncashed checks:

- PRTD's Electronic Systems Bureau and the Coordination and Control Center of the Government Central Accounting System (CIFAS) would produce monthly listing of expired uncashed checks.

- State agencies were responsible for picking up the listings and performing an analysis of the expired uncashed checks.

- Any action taken by the State agencies would be communicated to PRTD.

- The procedures to be followed by State agencies if a credit is due the Federal Government included:

    1. Reflect the credit in the Financial Status Report (FSR).

    2. Refund the credit directly to the Federal Government.

Assessment of the Action Taken by PRTD

While the issuance of guidance by PRTD was a positive step in implementing one of the prior audit recommendations, our current audit determined that State agencies did not take action to ensure that expired uncashed check listings were obtained, analyzed, and necessary accounting entries and FSR adjustments were processed. In addition, it is evident that PRTD did not establish effective controls over the activities of the State agencies and PRTD did not implement effective monitoring to ensure that Federal programs received appropriate credit for expired uncashed checks.

We interviewed officials at four State agencies that administered the majority of the Federal funds handled by PRTD in FYs 1994 and 1998:

- Department of the Family (DOF)
- Department of Education (DOE)
- Department of Labor (DOL)
- Department of Housing (DOH)

Our work at these four State agencies indicated that the guidance in the policy directive was not followed and credits were not processed for expired uncashed checks. For example, in interviews with DOF officials, we learned that they had picked up only 32 monthly expired uncashed check reports out of the 60 monthly reports generated from July 1, 1993, through June 30, 1998. In addition, DOF officials advised us that they did not analyze any of the 32 reports and no credits to Federal programs were processed. It is significant to note that DOF reported Federal expenditures of $1.2 billion for FY 1994 and $1.6 billion for FY 1998, which represents the largest portion of Federal expenditures of the State agencies serviced by the PRTD.

In interviews at the DOE, we were advised by the Director of Finance and the Supervisor of Cancellations that they had no knowledge about the policy directive issued by the PRTD. We learned that this major department had not picked up any of the listings of uncashed checks and was unaware that it should be analyzing the listings and processing credits for expired uncashed checks. It is also significant to note that the DOE had the second largest level of Federal expenditures in FY 1994 ($461 million) and FY 1998 ($502 million).

At DOL and DOH, we learned that they never picked up the monthly reports of expired uncashed checks and never processed the credits due the Federal Government.

In its September 21, 1994, policy PRTD stated that the responsibility to establish procedures for keeping logs showing the date and signature of the person who picked up the expired uncashed checks listings and follow-up to ensure that State agencies were obtaining the monthly listings were assigned to its Electronics System Bureau. In its response to our prior report, PRTD stated that the responsibility for establishing procedures to monitor the State agencies compliance with the September 21, 1994, directive would be assigned to the Bureau of Fiscal Systems. We learned from the Director of the Electronics System Bureau that his office did not establish logs or a follow-up system to ensure that State agencies were obtaining the monthly listings of expired

uncashed checks. In addition, no action was taken to ensure that State agencies were properly analyzing the listings of expired uncashed checks and processing necessary accounting entries or reflecting needed adjustments on FSRs. We also learned from the Director of the Bureau of Fiscal Systems that her office did not establish procedures to monitor the State agencies compliance with the September 21, 1994 directive. She informed us that insufficient staff resources was the reason.

We also determined that other promised actions, which PRTD had cited in its response to our prior report, were unsuccessful. For example, we learned that the planned improvements to the payroll system did not materialize. In its response, PRTD indicated that the use of CIFAS would improve the handling of expired uncashed payroll checks. Specifically, the necessary interphase of the payroll system with CIFAS would accelerate the process of addressing expired uncashed payroll checks. However, we were advised by PRTD officials that the interphase with CIFAS did not work and the project was abandoned. Also in its response, PRTD cited that the implementation of the CMIA in FY 1994 should help reduce the volume of uncashed checks. Our review showed that the implementation of the CMIA did not reduce the volume of expired uncashed checks.

In summary, none of the actions promised by PRTD in responding to the prior audits were effective. It is apparent that the issuance of the policy memorandum did not result in improving controls over crediting Federal programs for expired uncashed checks. As noted above, the policy guidance was not followed by the four State agencies we visited and PRTD was not able to demonstrate that any State agency had in fact fully implemented the guidance. In addition, the lack of action by PRTD in establishing up-front controls coupled with inadequate monitoring by PRTD was a major reason for the insufficient progress in ensuring that Federal programs receive proper credit for expired uncashed checks.

Adequacy of the Policy Guidance

As part of our audit, we evaluated the adequacy of the September 21, 1994, policy guidance by PRTD. Our analysis disclosed several weaknesses:

1. The guidance only applied to expired uncashed checks, which were charged to Federal designated accounts. The problem is that expenditures applicable to Federal programs can also be charged to State accounts in Puerto Rico. The policy directive did not address expired uncashed checks charged to State accounts that ultimately end up being charged to Federal programs.

   We learned that PRTD maintained central accounting records of expenditures by FY, State agency, and program account. Depending on the program, Federal financial participation (FFP) can range from 0 to 100 percent. For each program with less than 100 percent FFP, PRTD maintained separate State and Federal accounts to record expenditures incurred. The State agencies decide whether to charge the State or Federal accounts during the award period. As a result, State accounts were charged for expenditures that the Federal Government shared in.

The following example illustrates that both the State account and the Federal account need to be considered when determining credit due the Federal Government for expired uncashed checks. For a Federal award of $50,000 with an FFP of 50 percent, PRTD would set up a State account with a budget of $50,000 for the State's matching requirement and a Federal account with a budget of $50,000. During the award period, PRTD could charge either the State account or Federal account related to the project. For this example, PRTD charged the State account for expenditures of $70,000 and the Federal account for expenditures of $30,000. At the end of the award period, the State agencies combine both the State and Federal expenditures and apply the FFP rate ($100,000 X 50% = $50,000 Federal share). Consequently, the Federal Government is entitled to its share of any expired uncashed checks issued from both State and Federal accounts. The PRTD should review and evaluate the necessity and usefulness of maintaining multiple accounts to accumulate expenditures for a Federal participating project.

The PRTD has issued guidance to State agencies for identifying Federal accounts and State accounts linked to Federal awards. When a State agency receives a Federal grant award that requires matching, it sets up the Federal and State account and provides PRTD with the account numbers. However, to properly credit Federal programs for expired uncashed checks, any policy guidance must address examining expired uncashed checks charged to Federal accounts as well as State accounts that are linked to Federal accounts.

2. Another significant deficiency in our opinion was that the September 21, 1994, policy does not discuss timeframes within which the processing of accounting entries and adjustments to FSRs should occur. This is very important because Federal programs should receive credits as soon as the underlying uncashed check has expired since PRTD charges the expense to a Federal program when the check is issued. We believe PRTD should immediately reverse this entry when the check expires. Currently, PRTD treats the expired uncashed checks as accounts payable. The PRTD requires that an uncashed check be circulated and posted at PRTD's collection agencies throughout the island 2 years after the check expires. This posting is for 60 days. If no one claims a refund, uncashed checks from State accounts are transferred to the General Fund surplus account but checks from Federal programs remain in accounts payable. The PRTD needs to review and revise these procedures.

3. Another concern with the September 21, 1994, policy guidance was that PRTD only issued it once. We believe that to be effective, policy directives should be reissued periodically and should be updated to reflect changes in the accounting system or implementation.

We believe that updated comprehensive guidance needs to be developed, issued, and steps must be taken to ensure that State agencies are adhering to it. A comprehensive monitoring strategy must be developed, implemented, and maintained to ensure that Federal programs receive timely credits for expired uncashed checks. The PRTD also needs to reverse the expenditure entry that was

made when the check was written for expired uncashed checks and to evaluate the propriety of maintaining open Federal accounts payable amounts indefinitely.

Untimely Annulment of Checks Contributing to the Problem

The untimely processing of annulled checks needs to be addressed by PRTD because credits to Federal programs are also being delayed.

While conducting tests on some of the checks that were included in the listings of expired uncashed checks for FY 1994, we found checks that were not annulled timely and therefore ended up being included in the listing for checks that were over 6 months old. An annulled check is one that is incorrect when written and the State agency is aware of it and holds the check before it is distributed. For example, because PRTD requires that information for payroll be submitted in advance, checks could be issued after an employee has resigned. Annulment of checks is supposed to occur within 3 months. If timely action was taken, these checks would not appear on the monthly listing of expired uncashed checks over 6 months old.

Result of Inquiries about Changes in Controls for FYs 1999 and 2000

We interviewed several PRTD officials to determine if there were significant changes in the level of controls with respect to expired uncashed checks for FYs 1999 and 2000. Our limited inquiries revealed that the level of controls did not improve and in some instances worsened. We found that PRTD:

- Produced the monthly payroll expired uncashed check reports from July 1998 through July 1999, however, these reports were not analyzed by State agencies and Federal programs were not credited for their share of these checks.

- Had been unable to produce the monthly payroll expired uncashed checks reports subsequent to July 1999. This occurred because of problems with the new payroll system (RHUM), which became operational in August 1998. Consequently, reports were not available for State agencies to analyze and Federal programs were not credited for their share of these checks.

- Had been producing the monthly vendor expired uncashed checks reports for FYs 1999 and 2000, however, these reports have not been analyzed by State agencies and Federal programs were not credited for their share of these checks.

Conclusion

Our audit disclosed that PRTD did not have a system in place to ensure that Federal programs were credited for expired uncashed checks. In effect, Federal programs did not receive credit for expired uncashed checks. These weaknesses at both PRTD and the State agencies for which it

administers funds contributed to yet another multi-year period where PRTD is out of compliance. We view the continued inability of PRTD and the State agencies, which it oversees, to implement effective corrective action as a very serious matter.

Recommendation

Because of the length of time this issue has remained unresolved, we recommend that PRTD work with officials from the Office of Audit Resolution and Cost Policy to develop a corrective action plan which fully addresses all action needed to ensure timely processing of expired uncashed checks in future periods.

CREDIT DUE THE FEDERAL GOVERNMENT FOR FY1994

One of our audit objectives was to determine the credit due the Federal Government for expired uncashed checks for FY 1994. The Office of Audit Resolution and Cost Policy had requested this because FY1994 was not included in the $28.8 million settlement reached in our prior audit and PRTD would not have had an opportunity to take correction action during FY 1994.

For FY 1994, there were 27,450 expired uncashed checks totaling $6,996,052 issued from State and Federal accounts as follows:

Description	State Accounts	Federal Accounts	Total
Payroll	$3,430,106	$666,691	$4,096,797
Vendor	$1,583,165	$336,507	$1,919,672
SDO	$509,380	$470,203	$979,583
Total	$5,522,651	$1,473,401	$6,996,052

We requested that PRTD provide us with the actual credit due the Federal Government for FY 1994. The PRTD advised us that they could not do so because it would require State agencies to review and analyze each of the 27,450 checks to determine the accounts charged and whether Federal programs were involved. The PRTD felt that this check-by-check analysis would be too labor intensive and time consuming. However, PRTD officials worked with us to develop a methodology to determine an approximate Federal credit that could serve as a basis for reaching a negotiated settlement.

The approach agreed upon was that the starting point would be the $6,996,052 in expired uncashed checks. From this total, certain adjustments were made because evidence was provided that the transaction should not result in a credit to the Federal Government. For example, certain expenditures were deemed valid because a replacement check had been subsequently issued. Another example would be transactions that clearly involved only State accounts and, as such,

should not result in a credit to Federal programs. Each type of offsetting adjustment is discussed fully in footnotes accompanying Appendix A. Through this process, we reduced the amount of expired uncashed checks that could have an impact on Federal programs to $2,863,385. To this amount, we applied the ratio of PRTD Federal expenditures to total expenditures. For FY 1994, the FFP percentage was 43 percent. We applied this FFP to the $2,863,385 amount and also factored in fringe benefits, overhead, and interest on Federal funds that had not been credited properly. For FY 1994, this alternate computation process resulted in an estimated credit due the Federal Government of $1,959,261. See Appendix A for full details.

Recommendation

We recommend that PRTD refund the estimated credit of $1,959,261 due the Federal Government for FY 1994.

CREDIT DUE THE FEDERAL GOVERNMENT FOR FYs AFTER 1994

Our audit disclosed that through FY 1998, PRTD did not have a system in place to ensure that Federal programs were credited for expired uncashed checks. In addition, as noted above, our limited inquiries about conditions and controls in FYs 1999 and 2000 indicated that the same types of weaknesses existed in these years as well. In effect, Federal programs did not receive credit for expired uncashed checks. For FYs 1995 through 1998, we identified 99,711 expired uncashed checks totaling $29,743,726. For FYs 1999 and 2000, we determined the following:

Description	Period	Amount	Number of Expired Uncashed Checks
Payroll	7/1998 to 7/1999	$30,117,739	34,346
Payroll	8/1999 to 6/2000	No reports produced	Undetermined
Vendor	7/1998 to 6/2000	$ 9,194,425	Undetermined (5)
SDO	7/1998 to 6/2000	Undetermined (6)	Undetermined

Considering the volume of checks involved and the position of PRTD with respect to developing an alternate approach for FY 1994, we believe a negotiated settlement of this entire period should be considered. The PRTD will need to provide additional data for subsequent FYs similar to analysis data provided in FY 1994.

Recommendation

We recommend that PRTD compute the actual credit due the Federal Government for FY 1995 to present or reach a negotiated settlement with the Office of Audit Resolution and Cost Policy.

5 Reports contain list of expired uncashed checks, but total checks not provided.
6 SDO reports not analized by PRTD to determine amount.

Auditee Comments

We provided PRTD officials with our draft report and requested their comments. In their comments dated August 3, 2001, (see Appendix B), PRTD officials stated that it is in their best interest to make the necessary corrections to be in compliance with Federal regulations regarding the handling of expired uncashed checks. Therefore, they have prioritized this effort and have developed a strategic plan for implementation during the current FY.

In addition, PRTD officials stated that it issued a policy letter (Number 1300-7-95) on September 21, 1994, to State agencies to provide guidance for the proper handling of expired uncashed checks from Federal funds. The PRTD officials went on to state that, since they have no direct control of the State agencies, the purpose of the letter was not accomplished and PRTD is being penalized because the State agencies did not cancel the checks when they received the expired uncashed check listings.

The PRTD accepted our computation of the credit due the Federal Government for FY 1994 because the amount was agreed to by PRTD's past administration and it would be time consuming to review the work already done. However, referring to the four State agencies which we state in our report administered the majority of the Federal funds, PRTD officials stated that the nutrition assistance program of the DOF and the DOL have separate bank accounts and PRTD has no responsibility for their expired uncashed checks.

Lastly, PRTD officials stated that since PRTD is under a new administration, they would like the opportunity to compute the actual credit due the Federal Government for FYs 1995 through 2000.

OIG Response

We are pleased that the new administration at PRTD has made the correction of the problem of handling expired uncashed checks as a priority for the current FY.

We agree with PRTD's statement that State agencies did not follow their policy guidance letter for handling expired uncashed checks. We disagree with PRTD's statement that they have no direct control over the State agencies, and as a result, PRTD is being penalized because the State agencies did not cancel the checks when they received the expired uncashed check reports. As stated in our report, PRTD is responsible for controlling and accounting for State and Federal funds granted to State agencies. It is the responsibility of PRTD to establish effective controls over the activities of the State agencies regarding expired uncashed checks that affect both State and Federal funds and also to effectively monitor State agencies to ensure that Federal programs received appropriate credit for expired uncashed checks.

In developing and implementing a strategic plan to address this matter, we continue to recommend that PRTD work with the Office of Audit Resolution and Cost Policy. As discussed in our report, such a plan must address checks written from both Federal and State accounts. Any system developed must provide for timely cancellation of the checks, prompt crediting of Federal programs, and an effective monitoring system to ensure that controls are working as intended.

The PRTD accepted our calculation of the credit due the Federal Government for FY 1994 but they contend that, of the four State agencies that we mention in our report that administer the majority of Federal funds handled by PRTD, they have no responsibility for the expired uncashed checks of the DOL and DOF's nutrition assistance program because they have separate bank accounts. Our review showed that the majority of the expenditures incurred under the nutrition assistance program represented benefit checks issued by a SDO located at DOF. The SDO was appointed and his/her separate bank account was regulated directly by PRTD. The PRTD was responsible for controlling and accounting for the funding of this program and was responsible for expired uncashed checks. Regarding DOL, PRTD did not specify which program or programs had separate bank accounts. Again, our review showed that DOL administered programs that expenditures were paid by both SDOs and directly by PRTD. Nevertheless, PRTD was responsible for expired uncashed checks for these programs. With respect to the credit due the Federal Government for FY 1994, PRTD accepted the $1,959,261 computed amount and PRTD should formally request that the Office of Audit Resolution and Cost Policy consider this amount in settlement of FY 1994.

The PRTD also requested an opportunity to compute the credit due for FYs 1995 through 2000. We would also point out that FY 2001 would also need to be computed as well. We are skeptical that PRTD can compute the actual credit due the Federal Government for this multi-year period based on our experiences during this audit. However, if PRTD's request is granted, we believe that time frames for the computations should be set and agreement reached with the Office of Audit Resolution and Cost Policy on the method and procedures to be used in calculating the multi-year credit due the Federal Government.

APPENDICES

METHODOLOGY FOR DETERMINING A REASONABLE APPROXIMATION OF THE FY 1994 CREDIT DUE THE FEDERAL GOVERNMENT

Description	State Accounts	Federal Accounts	Total	Footnote
Total Expired Uncashed Checks	$5,522,651	$1,473,401	$6,996,052	
Less: Annulments	$0	$451,812	$451,812	#1
Less: Replacement Checks	$1,357,221	$291,463	$1,648,684	#2
Less: Retirement Funds	$1,418,865	$0	$1,418,865	#3
Less: Zero Balance Accounts	$0	$613,306	$613,306	#4
Total Subject to Federal Share	$2,746,565	**$116,820**	**$2,863,385**	
Aggregate FFP Rate FY 1994			0.43	#5
Subtotal: Credit Due Federal Gov't			**$1,231,255**	
Plus: Fringe Benefits			$70,755	#6
Plus: Indirect Costs			$169,522	#7
Plus: Interest			$487,729	#8
Total: Credit Due Federal Gov't			$1,959,261	

Footnote References

Footnote No. 1: ANNULMENTS

The total amount of expired uncashed checks included incorrect checks that were issued and held by the State agencies and returned for annulment. These checks were included in the expired uncashed checks listings because they were not annulled timely. The following chart summarizes the amount of incorrect payroll, vendor and SDO checks that were eventually annulled for FY 1994.

Description	State Accounts	Federal Accounts	Total
Payroll	$1,028,417	$444,759	$1,473,176
Vendor	$176,604	$0	$176,604
SDO	$0	$7,053	$7,053
Total	$1,205,021	$451,812	$1,656,833

The amount of payroll and vendor annulments was requested and provided by PRTD. For SDOs annulments, we determined the amount to be $7,053, which PRTD accepted. We verified the payroll and vendor annulments provided by PRTD by tracing the information to the monthly expired uncashed check listings, which identified annulments. For SDO annulments, we identified the amount from the SDO expired uncashed check listings. We selected annulled payroll, vendor and SDO checks that were issued from Federal and State accounts and traced them through the accounting system.

The PRTD policy for handling annulments of payroll and SDO checks issued from Federal accounts was to adjust the Federal accounts for the expenditures originally charged. The PRTD policy for handling annulments of payroll and vendor checks issued from State accounts was to adjust the State accounts for payroll annulments if processed within 3 months of the issuance date of the checks and for vendor annulments if processed within the FY the checks were issued. Our test of payroll and SDO annulments of checks issued from Federal accounts showed that the Federal accounts were properly adjusted. Our test of payroll and vendor annulments of checks issued from State accounts showed that the State accounts were not adjusted because the

annulments were not processed timely. As a result, PRTD transferred the amount of the checks to the Commonwealth's general fund.

For the purpose of calculating the credit due the Federal Government, we deducted $451,812 for payroll and SDO checks that were issued from Federal accounts and annulled. We did not deduct $1,205,021 for payroll and vendor checks that were issued from State accounts and annulled because the State accounts were never adjusted. Also, the time delay in recording annulled checks represents a financial cost to the Federal Government that has not been reflected here.

Footnote No. 2: REPLACEMENT CHECKS

The total amount of expired uncashed checks included outstanding checks that were eventually claimed by the payee and replaced. The following chart summarizes the amount of checks that were issued to replace payroll, vendor and SDO expired uncashed checks for FY 1994.

Description	State Accounts	Federal Accounts	Total
Payroll	$251,642	$25,050	$276,692
Vendor	$1,039,360	$221,744	$1,261,104
SDO	$66,219	$44,669	$110,888
Total	$1,357,221	$291,463	$1,648,684

The amount of payroll and vendor replacement checks was requested and provided by PRTD. For SDOs replacement checks, we were advised that this information was not readily available and PRTD did not have the time to obtain this information. Based on our tests, we determined that $66,219 of SDO replacement checks were issued from State accounts and $44,669 of SDO replacement checks were issued from Federal accounts. We provided our test results to PRTD to review and they accepted our amounts. We verified payroll and vendor replacement checks provided by PRTD by tracing the information to monthly expired uncashed check listings, which identified the checks that were replaced.

For SDO replacement checks, we identified the amounts from the SDO expired uncashed check listings. We selected replacement checks and traced them through the accounting system. We found that PRTD charged the Federal or State accounts when the original checks were issued. When the checks expired, PRTD established an accounts payable. When the replacement checks were issued, PRTD closed out the accounts payable. Our test showed the accounting to be correct and no duplication of expenditures occurred. For the purpose of calculating the credit due the Federal Government, we deducted total replacement checks of $1,648,684. Also, the time delay in recording replacement checks represents a financial cost to the Federal Government that has not been expressed here.

Footnote No. 3: RETIREMENT FUNDS

The total amount of expired uncashed checks included outstanding checks that were issued to pay retirement annuities to Government employees, judges of the Supreme, District and Superior courts and teachers. Our review showed that these payments were made from State funds with no Federal participation. For the purpose of calculating the credit due the Federal Government, we deducted $1,418,865. However, there is a Federal share of fringe benefits that includes retirement that is a financial cost to the Federal Government that has not been expressed here. In previous decisions issued by the Departmental Appeals Board (e.g., Decision No. 1635), 20 percent is the standard estimate of the Federal share.

Footnote No. 4: ZERO BALANCE ACCOUNTS

The total amount of expired uncashed checks included outstanding checks that were issued from Federal accounts that were under the CMIA zero balance funding technique. On June 28, 1993, the Commonwealth of Puerto Rico entered into an agreement with the U.S. Department of the Treasury to implement the CMIA for the period July 1, 1993 through June 30, 1994. The agreement outlined several techniques, including zero balance accounting, by which Federal funds may be obtained. Under zero balance accounting, no Federal funds are drawn down until a check clears the bank. The Commonwealth implemented the CMIA for 8 State agencies responsible for 15 major Federal programs with awards of $7 million or more. During FY 1994, PRTD had administrative jurisdiction over 5 of these State agencies, which were responsible for 12 of the 15 major Federal programs.

We selected 3 of the 12 Federal programs, which were funded under the zero balance accounting method and determined that the amounts drawn down by the State agency administering the program did represent checks which cleared the bank.

For the purpose of calculating the Federal share of expired uncashed checks for FY 1994, we determined that 84 percent of Federal funds drawn down for all Federal programs under the administrative jurisdiction of PRTD were under the zero balance funding technique. We

determined this percentage by comparing the total Federal expenditures of PRTD administered programs that were under the zero balance funding technique to total Federal expenditures for these programs. We deducted 84 percent or $613,306 from Federal accounts because Federal funds were never drawn down for expired uncashed checks. We calculated this amount by applying 84 percent to the total expired uncashed checks issued from Federal accounts less annulments and replacement checks issued from Federal accounts.

Description	Federal Accounts	
Total Expired Uncashed Checks	$1,473,401	
Less: Annulments	451,812	
Replacement Checks	291,463	
Adjusted Total	$ 730,126	X 84% = $613,306

Footnote No. 5: FEDERAL FINANCIAL PARTICIPATION (FFP) RATE FY 1994

We calculated the Federal share of the remaining balances for State and Federal accounts. We used an aggregate FFP rate of 43 percent. We calculated this percentage by comparing total Federal expenditures to total expenditures for State agencies under the administrative jurisdiction of PRTD.

Footnote No. 6: FRINGE BENEFITS

We added the fringe benefits related to annulled payroll checks issued from State accounts. Under footnote No. 1, we did not deduct the amount of $1,028,417 for annulled payroll checks because State accounts were not adjusted and the funds were transferred to the Commonwealth•s general fund. We also found that PRTD did not adjust the State accounts for the related fringe benefits costs. Consequently, we are adding the fringe benefits related to those annulled payroll checks to our calculation of the credit because PRTD also did not adjust the State accounts for these costs.

We calculated the fringe benefit adjustment of $70,755 by:

- Determining the fringe benefits related to the $1,028,417 by applying the fringe benefit rate of 16 percent (1,028,417 X 16% = $164,547). The 16 percent includes the retirement,

social security and Medicare portion that apply to all employees. The PRTD officials found this percentage to be acceptable.

- Determining the Federal share (43% X $164,547 = $70,755).

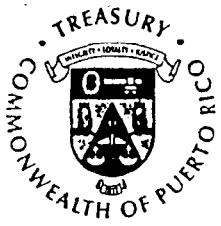
Footnote No. 7: INDIRECT COSTS

We added $169,522 of indirect costs related to the Federal share of the credit due the Federal Government of $1,231,255 plus fringe benefits of $70,755. We calculated this amount by applying an indirect cost rate of 13.02 percent.

For purposes of calculating the credit, we determined that the aggregate indirect cost rate was 13.02 percent of modified total direct costs for the State agencies under the administrative jurisdiction of PRTD.

Footnote No. 8: INTEREST

We added interest of $487,729. This amount was calculated by applying the rate of return the Commonwealth earned (approximately 3 percent) on its investment account for the period July 1, 1993, through December 31, 2000. We determined that the Commonwealth general fund was included in the Commonwealth's investment account.



Juan A. Flores Galarza, CPA
Secretary

August 3, 2001

Mr. Timothy J. Horgan
Regional Inspector General
for Audit Services
US Department of Health
& Human Services
8 Automation Lane
Albany NY 12205

Dear Mr. Horgan:

Re: Common Identification Number A-02-99-02004

We are including you our response to the Draft report for the Review of the Puerto Rico Department Expired Uncashed checks for the period July 1, 1993 through June, 30 2000.

It is our best interest to make the necessary corrections to be in compliance with the Federal Regulations. However, this effort requires some time to get the final outcome, therefore it is our priority and we have developed an strategic plan to work with this during this current fiscal year.

Based on the above our suggestions or recommendations are as follow:

1. Puerto Rico Treasury Department issued a policy guidance letter (Number 1300-7-95) on September 21, 1994 in order to provide for the proper handling of expired uncashed checks issued with federal funds. Since we have no direct control of the State agencies the purpose of the letter was not accomplished and the Puerto Rico Treasury Department is being penalized because the agencies do not cancel the checks when they receive the expired checks report.

   It is our concern to correct this situation permanently and have the agencies assuming their responsibility. We have been meeting with the personnel of the different systems that issue checks (RHUM and PRIFAS) in order to explore the possibility of programming them to have the checks (issued with federal funds) automatically cancel when they expire. From this point forward the State agencies should determine if a credit is due to the Federal government. In doing this we will not depend on having the agencies cancel the checks, the Puerto Rico Treasury Department will do it.

PO BOX 50067 SAN JUAN, PUERTO RICO 00902-6267

Mr. Timothy J. Horgan
August 3, 2001
Page 2

2. We accept the computation of the credit of $1,959,261 due to the Federal government for FY 1994 since this amount was reached in accordance with the past Administration and it would result time consuming to try to go over the work already done.

   During the audit officials of four State agencies that administered the majority of federal funds were interviewed: Department of the Family, Department of Education, Department of Labor and Department of Housing.

   The Nutrional Assistance Program of the Department of the Family and the Department of Labor have separate bank accounts therefore the Puerto Rico Treasury Department has no responsibility for their expired checks.

3. The third recommendation indicates that the Puerto Rico Treasury Department should compute the actual credit due to the Federal government for Fiscal Years 1995 to 2000 or to request a meeting with the Office of Audit Resolution and Cost Policy to discuss a negotiated settlement. Since this is a new Administration we would appreciate the opportunity to compute the actual credit due for Fiscal Years 1995 to 2000.

If you have any question do not hesitate to contact, Mr. Luis A. González, Director, Treasury Area at (787) 723-1346.

Sincerely,

Juan A. Flores Galarza

Juan A. Flores Galarza, CPA

c Mr. John Madigan
Auditor Manager
Office Inspector General

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Senior Auditor
San Juan Field Office

Mr. Juan José Rodríguez Gilibertys
Undersecretary of the Treasury

SECRETARY OF THE TREASURY