



January 24, 2011

**TO:** Yolanda J. Butler, Ph.D.  
Acting Director  
Office of Community Services  
Administration for Children and Families

**FROM:** /Lori S. Pilcher/  
Assistant Inspector General for Grants, Internal Activities,  
and Information Technology Audits

**SUBJECT:** Results of Limited Scope Review at Instituto Socio-Económico Comunitario, Inc.  
(A-02-10-02015)

The attached final report provides the results of our limited scope review at Instituto Socio-Económico Comunitario, Inc.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the Office of Inspector General (OIG) post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to contact me at (202) 619-1175 or through email at [Lori.Pilcher@oig.hhs.gov](mailto:Lori.Pilcher@oig.hhs.gov). We look forward to receiving your final management decision within 6 months. Please refer to report number A-02-10-02015 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE  
REVIEW AT INSTITUTO  
SOCIO-ECONÓMICO  
COMUNITARIO, INC.**



Daniel R. Levinson  
Inspector General

January 2011  
A-02-10-02015

# *Office of Inspector General*

<http://oig.hhs.gov>

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The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health & Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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# *Notices*

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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

The Community Services Block Grant (CSBG) program was authorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998, P. L. No. 105-285 (CSBG Act), to provide funds to alleviate the causes and conditions of poverty in communities. Within the U.S. Department of Health & Human Services, the Administration for Children and Families (ACF), Office of Community Services administers the CSBG program. The CSBG program funds a State-administered network of more than 1,000 local Community Action Agencies (agencies) that create, coordinate, and deliver programs and services to low-income Americans. The agencies provide services and activities addressing employment, education, housing, nutrition, emergency services, health, and better use of available income.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received an additional \$1 billion for the CSBG program for states to alleviate the causes and conditions of poverty in communities.

The Puerto Rico Department of the Family (the department) acts as the lead agency for purposes of carrying out Commonwealth of Puerto Rico activities for the CSBG program. The department is responsible for approving the Commonwealth's agencies' Recovery Act grant applications, and monitoring them for compliance with program regulations. For fiscal year (FY) 2009, the department was awarded an additional \$42,122,412 in Recovery Act funds for the Commonwealth's CSBG program.

Instituto Socio-Económico Comunitario, Inc. (INSEC), a private, non-profit organization, provides education, employment, health care, economic development, community development, homeless prevention, housing improvement, emergency assistance programs, and other related services throughout Puerto Rico. INSEC is one of four community action agencies in Puerto Rico. For FY 2009, the department awarded INSEC \$14,827,089 in additional CSBG Recovery Act funds.

### **OBJECTIVE**

Our objective was to assess INSEC's financial viability, capacity to manage and account for Federal funds, and capability to operate the CSBG program in accordance with Federal regulations.

### **SUMMARY OF FINDINGS**

Based on our assessment, INSEC has the capacity to manage and account for Federal funds and to operate a CSBG program in accordance with Federal regulations. However, we were unable to determine whether INSEC is financially viable because audited financial statements for calendar years 2006 through 2009 were not available at the time of our review. In addition, we identified certain weaknesses relating to the adequate safeguarding of Federal funds and written accounting policies and procedures.

## **RECOMMENDATION**

In determining whether INSEC is appropriately managing and accounting for the Recovery Act and regular CSBG grant funding, we recommend that ACF consider the information presented in this report in assessing INSEC's ability to operate the CSBG program in accordance with Federal regulations.

## **INSEC COMMENTS**

In its written comments on our draft report, INSEC concurred with our findings and indicated steps that it has taken or plans to take to address our findings. INSEC's comments are included in their entirety as the appendix.

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## INTRODUCTION

### BACKGROUND

#### **Community Services Block Grant**

The Community Services Block Grant (CSBG) program was authorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998, P. L. No. 105-285 (the CSBG Act), to provide funds to alleviate the causes and conditions of poverty in communities. Within the U.S. Department of Health & Human Services, the Administration for Children and Families (ACF), Office of Community Services administers the CSBG program. The CSBG program funds a State-administered network of more than 1,000 local Community Action Agencies<sup>1</sup> (agencies) that create, coordinate, and deliver programs and services to low-income Americans. These agencies provide services and activities addressing employment, education, housing, nutrition, emergency services, health, and better use of available income.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received an additional \$1 billion for the CSBG program for States to alleviate the causes and conditions of poverty in communities. CSBG Recovery Act funds are distributed to agencies using the existing statutory formula.

#### **Puerto Rico Department of the Family**

The Puerto Rico Department of the Family (the department) acts as the lead agency for purposes of carrying out the Commonwealth of Puerto Rico's activities for the CSBG program. The department is responsible for approving Commonwealth agencies' Recovery Act grant applications, and monitoring the agencies for compliance with program regulations. For fiscal year (FY) 2009, the department was awarded an additional \$42,122,412 in Recovery Act funds for the Commonwealth's CSBG program.

#### **Instituto Socio-Económico Comunitario, Inc.**

Instituto Socio-Económico Comunitario, Inc. (INSEC), a private, non-profit organization, provides education, employment, health care, economic development, community development, homeless prevention, housing improvement, emergency assistance programs, and other related services throughout Puerto Rico. INSEC is one of four community action agencies in Puerto Rico. For FY 2009, the department awarded INSEC \$14,827,089 in additional CSBG Recovery Act funds.

#### **Requirements for Federal Grantees**

Pursuant to 45 CFR part 74, grantees of Federal awards must implement written accounting policies and procedures and maintain financial systems that provide for accurate and complete

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<sup>1</sup> Community Action Agencies are non-profit private and public organizations established under the Economic Opportunity Act of 1964 to fight America's War on Poverty.

reporting of grant related financial data, effective control over grant funds, and allocation of costs to all benefitting programs. Grantees must also establish written procurement procedures. In addition, pursuant to 45 CFR § 74.27, the allowability of costs incurred by nonprofit organizations is determined in accordance with the provisions of Office of Management and Budget Circular A-122, *Cost Principles for Nonprofit Organizations*. The CSBG Act establishes the CSBG program and sets the requirements and guidelines for CSBG funds.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to assess INSEC's financial viability, capacity to manage and account for Federal funds, and capability to operate the CSBG program in accordance with Federal regulations.

### **Scope**

We conducted a limited review of INSEC's financial viability, financial management system, and related policies and procedures. Therefore, we did not perform an overall assessment of INSEC's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objective.

We performed our fieldwork at INSEC's central offices in San Juan, Puerto Rico, and its regional office in Caguas, Puerto Rico, during August 2010.

### **Methodology**

To accomplish our objective, we:

- confirmed that INSEC is not excluded from receiving Federal funds;
- reviewed relevant Federal laws, regulations, and guidance;
- reviewed INSEC's application and implementation of the grant award for the Recovery Act funding;
- reviewed INSEC's policies and procedures related to the CSBG program;
- reviewed INSEC's by-laws, minutes from its Board of Director meetings, the composition of the board, and organizational chart; and
- performed audit steps to assess the adequacy of INSEC's financial systems.

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

based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## **FINDINGS AND RECOMMENDATION**

Based on our assessment, INSEC has the capacity to manage and account for Federal funds and to operate a CSBG program in accordance with Federal regulations. However, we were unable to determine whether INSEC is financially viable because audited financial statements for calendar years 2006 through 2009 were not available at the time of our review. In addition, we identified certain weaknesses relating to the adequate safeguarding of Federal funds and written accounting policies and procedures.

### **AUDITED FINANCIAL STATEMENTS NOT PREPARED**

Pursuant to the Office of Management and Budget (OMB), Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart C, Federal grantees that expend \$300,000 or more are required to prepare appropriate financial statements, including the schedule of expenditures of Federal awards and ensure that annual audits required are properly performed and submitted when due.

For calendar years 2006 through 2009, INSEC did not ensure that OMB Circular A-133 audit reports were completed and submitted to ACF. Further, no other certified audits of INSEC's financial data were performed during this period. Without audited financial statements available, we were unable to determine whether INSEC is financially viable.

### **ADEQUATE SAFEGUARDING OF FEDERAL FUNDS**

Pursuant to 45 CFR § 74.21(b)(3), grantees must provide effective control over and accountability of all funds, property, and other assets to adequately safeguard all assets. In addition, pursuant to 45 CFR § 74.22(i)(2), grantees are required to deposit and maintain advances of Federal funds in insured accounts whenever possible. Federal Deposit Insurance Corporation (FDIC) policy states that deposits owned by a corporation, partnership, or unincorporated association are insured up to \$250,000 at a single bank.

INSEC's CSBG and CSBG Recovery Act bank account balances exceeded the FDIC insured limit. For example, the closing balances for INSEC's CSBG and CSBG Recovery Act bank accounts for the period ending May 2010 were \$2,865,100 and \$14,302,121, respectively. INSEC did not have effective internal controls over account balance limits to adequately safeguard deposits.

## **WRITTEN ACCOUNTING POLICIES AND PROCEDURES**

Pursuant to 45 CFR part 74, grantees of Federal awards must implement written accounting policies and procedures that provide for accurate and complete reporting of grant-related financial data, effective control over grant funds, and allocation of costs to all benefitting programs.

INSEC has not updated its accounting system manual since 1993. As a result, the manual does not include significant changes to INSEC's accounting procedures related to payroll processing, accounts payable/receivables, safeguarding of financial data, and automation of the accounting system.

## **RECOMMENDATION**

In determining whether INSEC is appropriately managing and accounting for the Recovery Act and regular CSBG grant funding, we recommend that ACF consider the information presented in this report in assessing INSEC's ability to operate the CSBG program in accordance with Federal regulations.

## **INSTITUTO SOCIO-ECONÓMICO COMUNITARIO, INC., COMMENTS**

In its written comments on our draft report, INSEC concurred with our findings and indicated steps that it has taken or plans to take to address our finding. INSEC's comments are included in their entirety as the appendix.

# **APPENDIX**

## INSTITUTO SOCIO-ECONÓMICO COMUNITARIO, INC., COMMENTS



JOLANDA VELEZ PEREZ  
EXECUTIVE DIRECTOR

December 8, 2010

Mr. James P. Edert  
Regional Inspector General for Audits Services  
Office of Inspector General, Region II  
Jacob Javits Federal Building  
26 Federal Plaza – Room 3900  
New York, NY 10278

**Report Number: A-02-10-02015**

Dear Mr. Edert:

Enclosed are our written comments about the draft report entitled of *Results of Limited Scope Review at Instituto Socio-Económico Comunitario, Inc.*, issued on December 6, 2010 by Department of Health & Human Services, Office of Inspector General.

If you have any questions about these comments, please do not hesitate to call me at 787-763-5230, or at [insec@insec.org](mailto:insec@insec.org).

Sincerely,

/Ms. Jolanda Vélez Pérez/  
Executive Director  
Instituto Socio-Económico Comunitario, Inc.

Enclosure

**INSTITUTO SOCIO-ECONOMICO COMUNITARIO, INC.**

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**Comments about the draft report entitled of  
*Results of Limited Scope Review at Instituto Socio-Económico Comunitario, Inc.***

**OIG's Finding: Audited Financial Statements Not Prepared**

We concur with the finding. On October 31, 2008 we engaged with a CPA Firm to perform the Single Audits for the years ended September 30, 2006 and 2007. As of this date they are still performing tests to revise our answers to their findings because we did not concur with the methodology used in their review. On August 22, 2010 we made a public announcement requesting a Proposal of Professional Services, from qualified Certified Public Accountants, to perform the Single Audits for the years September 30, 2008, 2009 and 2010. We received several proposals from qualified Certified Public Accountants. In the following days we will made the final selection of the new company of Certified Public Accountants who will perform the subsequent Single Audits. We will be pending that the new company of Certified Public Accountants met the requirement of the due date, established in the new engagement, to submit to us each Single Audit.

**OIG's Finding: Adequate Safeguarding of Federal Funds**

We concur with the finding. Effective October 1, 2010, we enter in a new agreement with the Administration for Children and Families (ACF) to change to a monthly basis the request of federal funds. This new agreement will allow us to maintain lower balances in the bank accounts without interrupting the program services. We want to highlight that our funds are deposited in a solid Financial Institution in Puerto Rico (Banco Popular de Puerto Rico). We are in continuing conversation with CSBG Program Director of AFC to evaluate additional alternative to allow us to comply with the requirement to maintain effective control over and accountability of all funds, property, and other assets to adequately safeguard all assets and to deposit and maintain advances of Federal funds in insured accounts whenever possible.

**OIG's Finding: Written Accounting Policies and Procedures**

We concur with the finding. On October 2010, we already implemented our updated Accounting Procedures and Performance Manual. Also, the Administration for Children and Families (ACF) are updating their Manual to be used by all sub recipients of federal funds administered by ACF. Once we receive the AFC's Manual we will made an update to include those procedures required by ACF in our Manual.

**OIG's Recommendation**

We concur with the recommendation.

/Ms. Jolanda Vélez, Executive Director INSEC/