

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**PUERTO RICO
IMPROPERLY CLAIMED SOME
CHILD CARE AND DEVELOPMENT
TARGETED FUNDS**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



**Gloria L. Jarmon
Deputy Inspector General
for Audit Services**

**January 2016
A-02-12-02016**

Office of Inspector General

<http://oig.hhs.gov>

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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

Puerto Rico did not comply with Federal requirements for the use of almost \$12.5 million in Child Care and Development targeted funds for fiscal years 2007 through 2009.

WHY WE DID THIS REVIEW

The Child Care and Development Fund (CCDF) provides discretionary funding for three targeted funds known as Infant and Toddler, Quality Expansion, and School Age Resource and Referral funds. These targeted funds are used for activities that improve the availability, quality, and affordability of child care and to support the administration of these activities. The Federal Government provides 100 percent of these funds. Previous Office of Inspector General reviews found that States did not always comply with Federal requirements when claiming targeted funds for reimbursement.

The objective of this review was to determine whether the Commonwealth of Puerto Rico, Department of the Family (State agency), complied with Federal requirements for the use of CCDF targeted funds for Federal reimbursement for Federal fiscal years (FYs) 2007 through 2009.

BACKGROUND

Under the CCDF program, States have considerable latitude in administering and implementing their childcare programs. Each State must develop, and submit to the Administration for Children and Families (ACF) for approval, a State plan that designates a lead agency responsible for administering childcare programs and identifies the purposes for which CCDF funds will be expended for two grant periods (i.e., 2 FYs). The State agency has 2 FYs to obligate CCDF funds and a third FY to liquidate those funds. States are required to report expenditures of CCDF funds, including targeted funds, on the quarterly Child Care and Development ACF-696 Financial Report.

In Puerto Rico, the State agency is the lead agency. As the lead agency, the State agency is required to oversee the expenditure of funds by contractors, grantees, and other Commonwealth agencies to ensure that the funds are expended in accordance with Federal requirements. ACF awarded the State agency CCDF funds for FYs 2007 through 2009 that included an allocation of targeted funds totaling \$18,918,567.

WHAT WE FOUND

Of the \$18,918,567 of CCDF targeted fund expenditures that we reviewed, the State agency complied with Federal requirements for the use of \$6,447,182. However, the State agency did not comply with Federal requirements for the use of the remaining \$12,471,385. Specifically, the State agency used \$10,901,206 for nontargeted fund activities and \$1,570,179 in targeted funds for contractor activities not specified as “targeted.”

In the case of the \$10.9 million used for nontargeted fund activities, the error occurred because the State agency failed to use the funding allocation established by ACF. Instead, the State agency used an allocation established with an internal budgeting methodology, resulting in targeted funds being used for nontargeted activities. In the case of the \$1.6 million in contractor activities that were not specified as targeted, the error occurred because the State agency did not adequately monitor closing reports submitted by contractors and did not have procedures requiring that its accounting records be reconciled with these reports.

WHAT WE RECOMMEND

We recommend that the State agency:

- refund to the Federal Government \$12,471,385 for expenditures that were not used for targeted fund activities,
- ensure that targeted funds are expended in accordance with funding allocations established by ACF, and
- develop procedures for reconciling accounting records to reports submitted by contractors and monitor these reports to ensure that contractors are using targeted funds for targeted activities.

STATE AGENCY COMMENTS AND OUR RESPONSE

In written comments on our draft report, the State agency did not indicate concurrence or nonconcurrence with our recommendations. Rather, the State agency provided revised ACF-696 reports for FYs 2007 through 2009 and additional documentation of transactions made during this period that it reclassified as being related to targeted fund activities. After reviewing the State agency's comments and additional documentation, we maintain that our findings and recommendations are valid. The State agency failed to use the funding allocation established by ACF and, instead, used its own internal budgeting methodology allocation.

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INTRODUCTION

WHY WE DID THIS REVIEW

The Child Care and Development Fund (CCDF) provides discretionary funding for three targeted funds, administered at the Federal level by the U.S. Department of Health and Human Services, Administration for Children and Families (ACF), and known as Infant and Toddler, Quality Expansion, and School Age Resource and Referral funds. These targeted funds are used for activities that improve the availability, quality, and affordability of child care and to support the administration of these activities. The Federal Government provides 100 percent of these funds. Previous Office of Inspector General reviews found that States did not always comply with Federal requirements when claiming targeted funds for reimbursement. Appendix A contains a list of Office of Inspector General reports on States' use of targeted funds.

OBJECTIVE

Our objective was to determine whether the Commonwealth of Puerto Rico, Department of the Family (State agency), complied with Federal requirements for the use of CCDF targeted funds for Federal reimbursement for Federal fiscal years (FYs) 2007 through 2009.

BACKGROUND

Under the CCDF program, States have considerable latitude in implementing and administering their childcare programs. Each State must develop, and submit to ACF for approval, a State plan that designates a lead agency responsible for administering childcare programs and identifies the purposes for which CCDF funds will be expended for two grant periods (i.e., 2 FYs). The State agency has 2 FYs to obligate CCDF funds and a third FY to liquidate those funds. The following table shows the obligation and liquidation periods for each FY covered by our review.

Obligation and Liquidation Periods

FY	Obligation Period Start Date	Obligation Period End Date	Liquidation Period End Date
2007	10/1/2006	9/30/2008	9/30/2009
2008	10/1/2007	9/30/2009	9/30/2010
2009	10/1/2008	9/30/2010	9/30/2011

States are required to report expenditures of targeted funds on the quarterly Child Care and Development ACF-696 Financial Report (ACF-696 report), which is a cumulative report for the FY.

In Puerto Rico, the State agency is the lead agency. As the lead agency, the State agency is required to oversee the expenditure of funds by contractors, grantees, and other Commonwealth agencies to ensure that the funds are expended in accordance with Federal requirements. The State agency contracts with these entities and considers the funds obligated when the contracts are signed.

HOW WE CONDUCTED THIS REVIEW

We reviewed all \$18,918,567 of CCDF targeted funds that ACF awarded to the State agency for FYs 2007 through 2009.¹ We did not perform a detailed review of the State agency's internal controls because our objective did not require us to do so. We limited our review to the controls related to the State agency's obligation and liquidation of the targeted funds.

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

Appendix B contains details of our audit scope and methodology, and Appendix C contains details on the Federal requirements related to CCDF targeted funds.

FINDING

Of the \$18,918,567 of CCDF targeted fund expenditures that we reviewed, the State agency complied with Federal requirements for the use of \$6,447,182. However, the State agency did not comply with Federal requirements for the use of the remaining \$12,471,385. Specifically, the State agency used \$10,901,206 for nontargeted fund activities and \$1,570,179 in targeted funds for contractor activities not specified as "targeted."

In the case of the \$10.9 million used for nontargeted fund activities, the error occurred because the State agency failed to use the funding allocation established by ACF. Instead, the State agency used an allocation established with an internal budgeting methodology, resulting in targeted funds being used for nontargeted activities. In the case of the \$1.6 million in contractor activities that were not specified as targeted, the error occurred because the State agency did not adequately monitor closing reports submitted by contractors and did not have procedures requiring that its accounting records be reconciled with these reports.

STATE AGENCY USED TARGETED FUNDS IMPROPERLY

The State agency must describe in its plan how it will use the targeted funds to improve the quality of child care (45 CFR § 98.16(h)). The State agency also must establish controls and procedures to permit the tracing of funds to ensure they have not been used improperly (45 CFR § 98.67(c)(2)). The State agency specified in its ACF-approved State plan that targeted funds would be used for activities such as training, acquiring equipment and educational materials, parent education, and contracting consultants or support personnel in specialized areas. Any expenditures not made in accordance with the Child Care and Development Block Grant Act of 1990, the implementing regulations, or the ACF-approved State plan are subject to disallowance (45 CFR § 98.66(a)).

¹ The 3-year obligation and liquidation cycle described above creates an inherent delay in terms of when those funds can be regarded as closed for adjustment and then subject to audit.

Funds Used for Nontargeted Fund Activities

The State agency reported on the ACF-696 reports that it had expended \$10,901,206 of the awarded targeted funds for activities not specified in its State plan as “targeted.” These nontargeted activities included, among other things, providing child care for children with special needs, CCDF program administration, and the establishment of a computerized childcare information system. Although ACF authorized the State agency to spend these funds for targeted activities, the State agency used its own internal budgeting methodology to allocate, expend, and report all CCDF funds awarded, including targeted funds. The State agency’s methodology resulted in this nearly \$11 million of targeted funds being allocated and used for nontargeted activities.

Although the specific amount of targeted funds awarded was not included in ACF’s notice of award, the terms and conditions of the award indicated that ACF would post the amount on an ACF Web site, which it did.² State agency officials indicated that they were aware of the amount of targeted funds awarded by ACF (i.e., the amount posted on the Web site). However, the officials stated that they believed the posted amount was the maximum, not the minimum, that the State agency could spend on targeted activities and that those funds also were available for nontargeted activities.

Funds Used for Contractor Activities Not Specified as “Targeted”

The contractors expended \$1,570,179 on activities not specified in the State plan as “targeted.” The State agency reported on the ACF-696 reports that it had expended \$8,017,361 for targeted fund activities. However, the accounting records detailing targeted expenditures used by the State agency to prepare the ACF-696 reports contained budgeted—not actual—expenditures. According to closing reports prepared by contractors, only \$6,447,182 of this amount was expended on targeted fund activities. State agency officials indicated that they were unaware that contractors used the targeted funds for nontargeted activities because the State agency did not adequately monitor closing reports submitted by contractors and had not developed procedures requiring that its accounting records be reconciled with these reports.

RECOMMENDATIONS

We recommend that the State agency:

- refund to the Federal Government \$12,471,385 for expenditures that were not used for targeted fund activities,
- ensure that targeted funds are expended in accordance with funding allocations established by ACF, and

² ACF Office of Child Care, “CCDF State and Territory Funding Allocations.” Available online at <http://www.acf.hhs.gov/programs/occ/resource/ccdf-state-and-territory-funding-allocations>. Accessed on February 10, 2015.

- develop procedures for reconciling accounting records to reports submitted by contractors and monitor these reports to ensure that contractors are using targeted funds for targeted activities.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency did not indicate concurrence or nonconcurrence with our recommendations. Rather, the State agency provided revised ACF-696 reports for FYs 2007 through 2009 and additional documentation of transactions made during this period that it reclassified as being related to targeted fund activities.

The State agency indicated that, after discussing our draft report findings with an ACF financial operations specialist, it corrected its FYs 2007 through 2009 accounting and amended its ACF-696 reports to reflect the correct and precise classification of disbursed CCDF funds. The State agency stated that it was under the belief that earmarks (targeted funds) were the maximum limits for the amount of funds that could be spent for each targeted area—not the minimum threshold. According to the State agency, the amended ACF-696 reports reflected a redistribution of \$21,196,736 of funds within the targeted areas.

The State agency’s comments are included as Appendix D.³

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing the State agency’s comments and additional documentation, we maintain that our findings and recommendations are valid. The State agency failed to use the funding allocation established by ACF and, instead, used its own internal budgeting methodology allocation.

We reviewed the State agency’s amended ACF-696 reports and note that it adjusted its accounting records to reclassify certain CCDF expenses as targeted activities. Although the State agency has submitted these amended reports to ACF, they have not been approved by ACF, and we have made no adjustments to our findings based on these amended reports. In addition, we disagree with the State agency’s interpretation that vouchers provided to parents for childcare services can be reclassified and claimed as an allowable use of targeted funds.⁴ Targeted funds

³ We did not include attachments to the State agency’s comments because they were too voluminous.

⁴ As a general matter, targeted funds are not intended to provide direct childcare services. Instead, as stated in section 658G of the Child Care and Development Block Grant Act of 1990, these funds are available for specified “activities designed to improve the quality and availability of child care (such as resource and referral services).” The CCDF regulation at 45 CFR 98.51(a)(2) gives examples of quality activities. Quality activities include operating directly or providing financial assistance for resource and referral programs related to child care, assisting providers in meeting childcare standards, improving the monitoring of compliance with and enforcement of childcare licensing and health and safety requirements, providing training and technical assistance, and improving salaries and other compensation of childcare staff.

are to be used for activities that improve the quality of child care. The provision of a voucher or childcare certificate, as defined in 45 CFR 98.2, issued by a grantee directly to a parent to be used as payment for childcare services is not a quality activity. Therefore, it is not an allowable use of targeted funds.

APPENDIX A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

Report Title	Report Number	Date Issued
<i>New York Improperly Claimed Some Child Care and Development Targeted Funds</i>	<u>A-02-12-02012</u>	7/22/2015
<i>Generally All of the Targeted Funds Costs Claimed by Colorado Under the Child Care and Development Fund Program for Fiscal Years 2008 Through 2010 Were Proper</i>	<u>A-07-13-03194</u>	12/1/2014
<i>Texas Improperly Claimed Some Child Care and Development Targeted Funds</i>	<u>A-06-13-00038</u>	8/28/2014
<i>South Carolina Properly Obligated and Liquidated Targeted Funds Under the Child Care and Development Fund Program</i>	<u>A-04-13-01021</u>	4/25/2014
<i>Arizona Improperly Claimed Some Child Care and Development Targeted Funds</i>	<u>A-09-12-01004</u>	4/02/2014
<i>Virginia Properly Obligated and Liquidated Most Targeted Funds Under the Child Care and Development Fund Program</i>	<u>A-03-12-00251</u>	10/17/2013
<i>Louisiana Improperly Claimed Some Child Care and Development Fund Targeted Funds</i>	<u>A-06-12-00057</u>	9/30/2013
<i>Nebraska Improperly Claimed Some Child Care and Development Targeted Funds</i>	<u>A-07-12-03175</u>	4/30/2013
<i>Michigan Properly Obligated and Liquidated Targeted Funds Under the Child Care and Development Fund Program</i>	<u>A-05-12-00062</u>	4/26/2013
<i>Ohio Properly Obligated and Liquidated Targeted Funds Under the Child Care and Development Fund Program</i>	<u>A-05-12-00061</u>	4/26/2013
<i>Connecticut Properly Obligated and Liquidated Targeted Funds Under the Child Care and Development Fund Program</i>	<u>A-01-12-02505</u>	2/21/2013
<i>Iowa Improperly Claimed Some Child Care and Development Targeted Funds</i>	<u>A-07-11-03163</u>	3/28/2012

APPENDIX B: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed all of the \$18,918,567 in CCDF targeted funds that ACF awarded to the State agency for FYs 2007 through 2009. We did not perform a detailed review of the State agency's internal controls because our objective did not require us to do so. We limited our review to the controls related to the State agency's obligation and liquidation of the targeted funds.

We conducted fieldwork at the State agency's offices in San Juan, Puerto Rico, from August 2012 through February 2013.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and program guidance, and Puerto Rico's approved State plans;
- reviewed the ACF-696 reports for FYs 2007 through 2009 to determine the amount of CCDF targeted funds that the State agency claimed;
- interviewed State agency staff responsible for preparing the ACF-696 reports, recording costs, and issuing contracts to obtain an understanding of how the reports were prepared, how the targeted funds were reported, and what documentation was maintained to support expenditures on the reports;
- reviewed the State agency's documentation used to prepare the ACF-696 reports;
- reconciled \$18,918,567 of CCDF targeted funds allocated by ACF to amounts claimed on the ACF-696 and recorded in the State agency's accounting system, and determined the amount spent on nontargeted activities;
- for the amount claimed on the ACF-696 reports as being spent on targeted activities:
 - reviewed the State agency's accounting system and supporting documentation to verify compliance with obligation and liquidation requirements;
 - reconciled closing reports prepared by contracted agencies to State agency accounting records to identify targeted funds reported as spent by contractors; and
- discussed the results of our review with State agency officials.

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

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

APPENDIX C: FEDERAL REQUIREMENTS RELATED TO TARGETED FUNDS UNDER THE CHILD CARE AND DEVELOPMENT FUND

Discretionary funding for the Child Care and Development Fund is authorized by the Child Care and Development Block Grant Act of 1990, as amended. Section 658G of the law (42 USC § 9858e) provides that States must use certain discretionary funds for “activities designed to improve the quality and availability of child care (such as resource and referral services).”

Federal regulations (45 CFR § 98.60(d)(1)) state: “Discretionary Fund allotments shall be obligated in the fiscal year in which funds are awarded or in the succeeding fiscal year. Unliquidated obligations as of the end of the succeeding fiscal year shall be liquidated within one year.”

Federal regulations (45 CFR § 98.60(d)(7)) state: “Any funds not obligated during the obligation period specified in paragraph (d) of this section will revert to the Federal government. Any funds not liquidated by the end of the applicable liquidation period specified in paragraph (d) of this section will also revert to the Federal government.”

Federal regulations (45 CFR § 98.60(d)(4)) state: “... determination of whether funds have been obligated and liquidated will be based on: (i) State or local law; or, (ii) If there is no applicable State or local law, the regulation at 45 CFR 92.3, Obligations and Outlays (expenditures).”

Federal regulations (45 CFR § 92.3) state: “*Obligations* means the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the grantee during the same or a future period.”

Federal regulations (45 CFR § 98.16(h)) require that the approved CCDF State plan include “[a] description of the activities to provide comprehensive consumer education, to increase parental choice, and to improve the quality and availability of child care, pursuant to [45 CFR] § 98.51.”

Federal regulations (45 CFR § 98.66(a)) state: “Any expenditures not made in accordance with the [Child Care and Development Block Grant Act of 1990], the implementing regulations, or the approved Plan, will be subject to disallowance.”

Federal regulations (45 CFR § 98.67(c)(2)) state: “Fiscal control and accounting procedures shall be sufficient to permit ... [t]he tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the provisions of this part.”

Federal regulations (45 CFR § 98.2) state: “*Child care certificate* means a certificate that is issued by a grantee directly to a parent who may use such certificate only as payment for child care services.”

Federal regulations (45 CFR § 98.51(a)(2)) state:

Activities to improve the quality of child care services may include, but are not limited to: (i) Operating directly or providing financial assistance to organizations (including private non-profit organizations, public organizations, and units of general purpose

local government) for the development, establishment, expansion, operation, and coordination of resource and referral programs specifically related to child care; (ii) Making grants or providing loans to child care providers to assist such providers in meeting applicable State, local, and tribal child care standards, including applicable health and safety requirements, pursuant to §§ 98.40 and 98.41; (iii) Improving the monitoring of compliance with, and enforcement of, applicable State, local, and tribal requirements pursuant to §§ 98.40 and 98.41; (iv) Providing training and technical assistance in areas appropriate to the provision of child care services, such as training in health and safety, nutrition, first aid, the recognition of communicable diseases, child abuse detection and prevention, and care of children with special needs; (v) Improving salaries and other compensation (such as fringe benefits) for full-and part-time staff who provide child care services for which assistance is provided under this part; and (vi) Any other activities that are consistent with the intent of this section.

APPENDIX D: STATE AGENCY COMMENTS



ESTADO LIBRE ASOCIADO DE
PUERTO RICO
Administración para el Cuidado y
Desarrollo Integral de la Niñez

June 25, 2015

Mr. James P. Edert
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General
Office of Audit Services, Region II
Jacob K. Javits Federal Building
26 Federal Plaza, Room 3900
New York, NY 10278

Dear Mr. Edert:

The Administration for the Care and Integral Development of Childhood (ACUDEN, for its acronym in Spanish) of the Department of the Family in Puerto Rico presents the written comments of the Report Number A-02-12-02016.

ACUDEN was created, as an independent administration of the Department of the Family in Puerto Rico in 2003.¹ ACUDEN's Directors of Budget and Finance were under the belief that earmarks were the maximum limit for the use of funds in each target, instead of the threshold, and even when funds were used for the purposes stated in the law, expenses were reflected as direct services, instead of distributing them on the corresponding target. From 2003-2015, no observations or recommendations were made by the Administration of Children and Families (ACF) regarding the earmarks of the targets or the CCDF ACF-696 Financial Reports. During the evaluation made by the Office of the Inspector General, we discussed the preliminary findings with the Financial Operations Specialist of the Office of Grants Management, Region II, in order to assure that corrections were made to reflect the correct and precise classification of the disbursed CCDF, and comply with the reporting standards, avoiding potential findings. After reviewing the information available in ACUDEN, the Specialist recommended the revaluation of expenses under the direct services category to reflect the activities and targets in which they were spent.

We made the exercise for FY 2009, including ARRA funds, and the amended report was sent to ACF Financial Operations Specialist who found the exercise to be appropriate and according to ACF's expectations, and told us to make the same exercise for FY 2007 and 2008. The redistribution of funds according to the activities was performed for FY 2007 and 2008, and we

¹ Law No. 179-2003, August 1st, created ACUDEN by amending the Reorganization Plan of the Department of the Family. It provided a transition period of ninety (90) days to separate the operations from its former Administration ADFAN, and to create the managerial structure, including the fiscal areas (budget and finance).

OFICINA DE LA ADMINISTRADORA
Ave. de la Constitución Pta. 2, San Juan, PR 00902
Apartado 15091, San Juan, PR 00902-5091
Tel. 787-724-7474 Fax: 787-977-7820



Mr. James P. Edert
Written comments on
OIG Report No. A-02-12-02016
June 25, 2015
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received positive feedback from our ACF's Financial Operations Specialist. We enclose the results of the exercise made to assess the financial information and classify it according to the nature of the expenses. Among other activities, we considered the assignation of funds for the inspection and certification of facilities, according to the standards of the Department of the Family in Puerto Rico, which is the agency that licenses child care facilities as well as the expansion of services in the different targets. The result of the amendment reports is the redistribution of \$21,196,736 funds within the targets. This amendment reflects the reality of the use of funds granted by the Administration of Children and Families and the compliance with the earmarks in each targeted funds.

Please, find enclosed the results of the fiscal analysis, including a CD with digital information retrieved from the database created and used by ACUDEN during the FY 2007-2008-2009. In that period of time, ACUDEN used a database created in-house, using the software CLARION. The information was extracted to Excel and worked in that software.

The Auxiliary Administrator of Management and Finance is available to provide more information about the analysis made for the redistribution of funds and the records are available for inspection. We appreciate the opportunity to submit written comments on the preliminary findings, as well as your availability to assess the amended reports and supporting documents.

Sincerely,


Idalia Colón Rondón, MSW
Secretary

Attachment

c Olga Bernardy Aponte, Ph.D.
Administrator of ACUDEN