April 22, 1996

Our Reference: Common Identification Number A-02-94-02002

Dr. Jorge L. Sanchez  
Chancellor, University of Puerto Rico  
Medical Sciences Campus  
P. O. Box 365067  
San Juan, Puerto Rico  00936-5067

Dear Dr. Sanchez:

Enclosed for your information and use are two copies of our final audit report titled "REVIEW OF UNEMPLOYMENT INSURANCE COSTS CHARGED TO FEDERAL PROGRAMS BY THE UNIVERSITY OF PUERTO RICO, MEDICAL SCIENCES CAMPUS, UNDER THE CONTRIBUTION METHOD."

Attached to the front of the audit report is a brief quality survey and accompanying instructions. We would very much appreciate your cooperation in completing this survey and returning it to us in the postage paid envelope.

Final determination as to actions taken on all matters reported will be made by the HHS 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), Office of Inspector General, Office of Audit Services, reports issued to the Department’s grantees and contractors are available, if requested, 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 the referenced common identification number in all correspondence relating to this report.

If you have any questions on the enclosed report, please contact Mr. Timothy Horgan, Audit Manager, at (212) 264-2875 or Mr. Efrain Maldonado-Rivera, Senior Auditor, of the Puerto Rico Field Office at (787) 766-5244.

Sincerely yours,

John Tournour
Regional Inspector General
for Audit Services

Enclosures

HHS Action Official:

James Schneider
Assistant Secretary for Management & Budget
U.S. Department of Health & Human Services
Room 5700, Cohen Building
330 Independence Avenue, S.W.
Washington, D.C. 20201
REVIEW OF UNEMPLOYMENT INSURANCE COSTS CHARGED TO FEDERAL PROGRAMS BY THE UNIVERSITY OF PUERTO RICO MEDICAL SCIENCES CAMPUS UNDER THE CONTRIBUTION METHOD
This report presents the results of our REVIEW OF UNEMPLOYMENT INSURANCE COSTS CHARGED TO FEDERAL PROGRAMS BY THE UNIVERSITY OF PUERTO RICO, MEDICAL SCIENCES CAMPUS, UNDER THE CONTRIBUTION METHOD during the period January 1, 1988 to June 30, 1995.

The objective of our audit was to determine whether the Medical Sciences Campus (MSC) had adequate procedures and controls for charging unemployment insurance costs to federal programs under the mandated contribution method and whether the amounts charged complied with applicable regulations and were reasonable, allowable and allocable.

The contribution method is a funding system for unemployment costs which requires quarterly contributions based on a portion of employee salaries times an unemployment contribution rate which is set by the Puerto Rico Department of Labor (PRDOL), the agency that administers the unemployment program in Puerto Rico.

Our review disclosed significant weaknesses in MSC's administration of the unemployment insurance program under the contribution method. We found extensive noncompliance with the quarterly reporting requirements. We identified inaccurate reports including a significant overpayment made to the PRDOL, the submission of reports without the required remittances, the failure to file required reports, as well as reports that were filed untimely. Because of this noncompliance, the PRDOL assessed significant fines, penalties and interest against MSC's contribution account. We also identified overcharges to Federal programs and improper penalty charges to Federal programs.

Within our audit period, we found the following situations:

MSC used an incorrect unemployment contribution rate for the 27 month period, January 1, 1988 to March 31, 1990. MSC reported and remitted unemployment insurance contributions utilizing a rate of 5.4 percent when the correct rate was 1.5 percent. The MSC also charged Federal projects based on the incorrect rate. Due to a clerical error, the amount of the overpayment to PRDOL was $168,990 while the overcharge to Federal projects was $177,990. Although aware of the overpayment, MSC did not take timely action to seek recovery of the overpayment from PRDOL nor to credit Federal programs for the overcharge.
MSC filed unemployment insurance reports for the period April 1, 1990 to December 31, 1993 but failed to submit payment for the unemployment insurance contributions that were due for this 45 month period. Nevertheless, MSC charged Federal projects for $110,058 in unemployment insurance costs. Because of the nonpayment of contributions that were due, the PRDOL advised us that as of November 30, 1994 it had assessed $52,765 in fines, interest and penalties against MSC’s contribution account for the period January 1, 1988 to December 31, 1993.

MSC believed that the overpayment of $168,990 from the prior period should have been applied by PRDOL to contributions due for this 45 month reporting period. MSC believes the imposition of fines, penalties and interest when a substantial overpayment existed to be unfair. As a result of recommendations in our draft audit report, MSC entered into negotiations with PRDOL to discuss and resolve differing viewpoints on the appropriate treatment of the overpayment and the interest fines and penalties that had been assessed.

MSC had failed to file required quarterly unemployment reports for all of calendar year 1994 and had not made required remittances of unemployment insurance contributions that were due. As a result, MSC was subject to the imposition of additional fines, interest and penalties against MSC. Once again, MSC maintained that the prior period overpayment was sufficient to cover contributions that were due for 1994. Although MSC had not filed or paid unemployment insurance to the PRDOL for calendar year 1994, MSC nevertheless computed and charged Federal projects for $84,988 in unemployment insurance costs.

As a result of recommendations in our draft audit report, MSC negotiated with PRDOL and filed all four quarterly unemployment reports for 1994. In preparing the reports, penalty rates were utilized.

MSC was assigned a penalty unemployment insurance contribution rate of 4.4 percent for calendar years 1994 and 1995. The penalty rate was assigned because MSC was considered delinquent in paying unemployment insurance contributions and had been assessed penalties, interest and fines by the PRDOL. The use of penalty rates for charging unemployment costs to Federal projects is unacceptable.
OMB Circular A-21 precludes the charging of penalties to Federal projects.

We calculated an estimated experience rate for 1994 and 1995 by making the assumption that all payments had been made on time by MSC. We estimate that for 1994 the experience rate should have been 2.5 percent while for 1995 the experience rate should have been 1.9 percent. We then computed the effect of using the penalty rate versus our estimated experience rates. For 1994, the estimated rate would have resulted in $36,698 less in unemployment costs being charged to Federal programs while for the first six months of 1995, federal projects were overcharged $44,579.

In addition to the cited examples, our review of the unemployment area also identified serious concerns about the adequacy of MSC’s cash management control policies in light of its practice of notifying its cash management office to draw Federal funds based on the accrual of unemployment insurance, when in fact, actual disbursements were not planned nor made.

The internal controls over the entire unemployment insurance area require significant strengthening. Of critical importance is that senior management of MSC must directly and effectively supervise all aspects of accounting for unemployment insurance costs until such time as MSC is in full compliance with unemployment insurance reporting requirements. The MSC also needs to strengthen cash management control procedures to ensure that Federal funds are drawn down when needed to meet actual cash disbursement requirements.

In our draft report dated November 3, 1995, we recommended that the senior management of MSC enter into negotiations with PRDOL officials to try and resolve the financial issue of accounting for the overpayment and the issue of assessing fines, penalties and interest. We are pleased to report that MSC officials acted promptly to meet and negotiate with PRDOL officials. As a result, agreement was reached on December 15, 1995 that MSC could apply the overpayment of unemployment insurance from the period January 1, 1988 to March 31, 1990 as a credit to subsequent periods where MSC had withheld payments. In addition, PRDOL waived all penalties, interest and surcharges. As a result of this settlement, the final report has been changed to eliminate matters that were included in the draft report but have now been resolved.

In this final report, we are making a series of procedural recommendations to strengthen internal controls. In addition, we are recommending that MSC immediately refund a total of $259,267 to the Federal government resulting from overcharges and the use of penalty rates including:
- $177,990 which represents the overcharge to Federal projects resulting from the use of the incorrect and excessive unemployment insurance rate for the period January 1, 1988 to March 31, 1990.

- $36,698 which represents the difference between the penalty rate charged to federal programs for calendar year 1994 and the estimated experience rate.

- $44,579 for the difference between the penalty rate used for charging Federal projects during the first six months of 1995 and the estimated experience rate.

We have also made one recommendation to strengthen cash management.

In its response to the draft report dated December 14, 1995, MSC agreed with all our recommendations. The complete response of MSC is included in the Appendix of this report.
INTRODUCTION

Background

The Medical Sciences Campus is a major branch of the University of Puerto Rico; its principal areas of curriculum are Medicine, Odontology, Public Health, Nursing, Pharmacy and Health Allied Sciences. For the fiscal year ended June 30, 1994, MSC was awarded approximately $21 million in grants and contracts from Federal agencies. This included awards from the Department of Health and Human Services, the National Aeronautics and Space Administration, the Department of Defense, National Science Foundation and the Department of Energy. Although salaries for most of MSC's 2,500 employees are paid from institutional funds, approximately 270 employees receive all or part of their salaries from Federal projects. In 1994, the average monthly salaries charged to Federally sponsored projects were $365,319.

The Commonwealth Public Law 74 as amended, "The Puerto Rico Employment Security Act" (PRESA), requires government entities such as MSC to provide unemployment coverage for their employees. The Governor of the Commonwealth of Puerto Rico's Executive Order No. 4186 modified PRESA effective October 1, 1983 by mandating the contribution method for Federal projects of fixed duration administered by Commonwealth entities such as MSC. The Executive Order reasoned that unemployment benefits are a legitimate administrative cost which should be budgeted in the Federal program expenditures. It also indicated that it is more convenient for an agency administering Federal projects of fixed duration to use the contribution method.

Under the contribution method, MSC is required to prepare and submit unemployment reports on a quarterly basis to the PRDOL, the agency which centrally administers the unemployment program in Puerto Rico. The reports calculate an unemployment contribution by multiplying the first $7,000 of each employee's annual wages times an unemployment rate established by the PRDOL. The report and the remittance of unemployment contribution are due 30 days after the end of the quarter. If the reports and contributions are not submitted timely, the PRDOL imposes interest, penalties and surcharges.
Scope of Audit

The purpose of our audit was to determine whether MSC had adequate procedures and controls for charging unemployment insurance costs to federal programs under the contribution method and whether the amounts charged complied with applicable regulations and were reasonable, allowable and allocable.

Our audit was limited to an examination of the contribution method as mandated by the Executive Order No. 4186. Because this was a specific audit of one employer, namely MSC, we did not evaluate the fairness of the contribution method versus another unemployment funding mechanism known as the reimbursement method.

As part of our audit, we met with officials of MSC to gain an understanding of their accounting system for preparing unemployment insurance reports and for charging those costs to Federal projects under the contribution method. We reviewed and tested those controls which we deemed to be significant including those related to determining applicable base salaries, assignment and use of unemployment insurance rates, preparing and submitting unemployment reports and the procedures used to charge Federal projects. Because of various weaknesses found, we also met with officials of the PRDOL to obtain a history of unemployment payments made by MSC and the application of the payments by PRDOL to interest, fines, penalties and unemployment insurance contributions. We also obtained information on the development of the experience rates for MSC and why penalty rates were assigned. We also reviewed the methodology used to calculate experience rates to see whether it was consistent with provisions of applicable regulations.

Our audit was conducted in accordance with applicable governmental auditing standards and included such tests and other auditing procedures that we considered necessary in the circumstances. Audit work was conducted at MSC, at PRDOL's central office and in our San Juan, Puerto Rico field office from October 1994 through August 1995.
Our review disclosed significant weaknesses in MSC's administration of the unemployment insurance program under the contribution method during our audit period of January 1, 1988 to June 30, 1995. During the audit we advised the current management of MSC of the issues we were developing. They cooperated with us and took the initiative to have the Chancellor of the University contact the PRDOL to begin work on trying to address the weaknesses noted by our audit.

We found extensive non compliance by MSC with:

A. the quarterly unemployment insurance reporting requirements. The noncompliance included inaccurate and incomplete unemployment insurance reports being filed, the failure to file required reports as well as reports which were not filed timely.

B. the charging of unemployment costs to Federal projects. These weaknesses resulted in overcharges to Federal programs and improper penalty charges to Federal programs.

C. the Federal draw down criteria because MSC notified its cash management office to draw down Federal funds based on the accrual of unemployment insurance costs, when in fact, actual disbursements were not planned nor made.

Our findings and recommendations on these three areas are discussed in more detail in the sections that follow:

A. QUARTERLY UNEMPLOYMENT INSURANCE REPORTING

Under the contribution method, the quarterly unemployment insurance report and the amount due must be submitted to the PRDOL within 30 days after the end of the quarter. The unemployment contribution due is calculated by multiplying salaries earned in the quarter times an unemployment contribution rate provided by the PRDOL. Only the first $7000 of each employees annual wages are includable in calculating unemployment costs. Although the requirements are straightforward, our review disclosed numerous weaknesses including:
**Inaccurate Reporting**

For the period January 1, 1988 to March 31, 1990, MSC utilized an incorrect rate in calculating the unemployment insurance contribution that was due. Instead of utilizing a rate of 1.5 percent, MSC utilized a rate of 5.4 percent which resulted in an overpayment of $168,990 to the PRDOL. The MSC maintains that it was not properly notified about the rate reduction. However, had MSC reviewed legislation on rate setting, it would have been aware of the rate change. In addition, MSC should periodically confirm the appropriateness of the rate with the PRDOL. Also, when the PRDOL assigns an experience rate to MSC, it is essential that MSC review the accuracy of the calculations that went into setting the rate to ensure they are accurate and consistent with the rate methodology in the regulations. Currently, MSC has no procedures to independently review the accuracy and propriety of the rate that has been calculated.

**Incomplete Reports**

Although MSC filed reports for the period April 1, 1990 to December 31, 1993, the reports were incomplete because MSC failed to remit the calculated contribution due amount.

The rationale for non remittance of the amount due was that MSC was trying to recover the $168,990 overpayment through offset by not paying the current amount due. There are a number of weaknesses with this approach. First, this approach was inconsistent with the refund provisions in the regulations. The MSC should have followed the refund provisions with respect to recovering the prior period overpayment. Second, MSC did not obtain the approval of PRDOL to use the offset approach. Third, MSC was unable to provide us evidence that it had established procedures or was monitoring the amounts being offset against the unrecovered overpayment amount. Finally, because the required remittance of the unemployment contribution had not been made, the PRDOL was assessing MSC interest, fines and penalties.

In our draft report dated November 3, 1995, we recommended that the senior management of MSC enter into negotiations with PRDOL officials to resolve the issue of the accounting for the overpayment and the assessment of fines, interest and penalties. MSC acted promptly on this recommendation and reached agreement with the PRDOL. In a letter dated December 15, 1995, MSC was authorized to apply the overpayment as a credit against subsequent periods where previously MSC had withheld payment of the unemployment insurance amounts that were due to PRDOL. In addition, PRDOL waived all interest, fines and penalties.
While the settlement addresses many of the issues raised by our audit, it is essential that senior management ensure that all required unemployment insurance reports be prepared properly and completely and that the required remittance be submitted in a timely manner. If errors are made, MSC should consult with the PRDOL to ensure that the proper protocol is followed to resolve the problem.

**Failure to File**

Through the end of our field work, MSC had not file any unemployment insurance reports for the four quarters in calendar year 1994. The reason provided to us for noncompliance was that changes to their accounting system had precluded them from preparing the required reports. We question MSC’s explanation in this regard. While the system changes may have caused problems generating computerized information, the data could have been generated manually.

It is essential that MSC comply with the reporting requirements of the unemployment insurance program. Senior management must implement procedures to ensure that all required reports are prepared. In response to recommendations in our draft report, MSC has advised us that as part of their negotiations with the PRDOL they have now filed the 1994 quarterly unemployment insurance reports.

**Untimely Reporting**

Unemployment insurance reports are due 30 days after the end of the quarter. As previously discussed, the reports for 1994 were not filed until the last quarter of 1995 and therefore they were untimely. In addition, we noted that the reports for the period, January 1, 1988 to September 30, 1989 were all submitted late.

Senior management at MSC must implement controls to ensure that all quarterly unemployment insurance reports are submitted in a timely manner.

**Recommendations**

In order to strengthen quarterly unemployment insurance reporting, we recommend that the senior management of MSC:

1. Implement procedures which will require staff to review the accuracy of all experience rates established by the PRDOL to ensure that the information used in rate setting is factually accurate and that the correct methodology was followed.
2. Review all unemployment insurance reports to ensure they are complete and accurate, the correct rate has been utilized and that the required remittance is attached and mailed with the report.

3. Maintain lines of communication with officials of the PRDOL so that questions, comments and concerns can be resolved quickly and to ensure that the proper protocol is followed to resolve any problems that may occur.

4. Establish control procedures to ensure that all quarterly reports are prepared and submitted within the time frames established by the PRDOL.

B. CHARGING OF UNEMPLOYMENT INSURANCE TO FEDERAL PROJECTS

Our review disclosed significant weaknesses in MSC’s procedures for charging unemployment insurance to Federal projects. The weaknesses resulted in overcharges and improper penalty charges to Federal programs. The problems can be categorized into the following two areas:

**Overcharges Not Refunded**

The MSC used an incorrect unemployment rate for the 27 month period, January 1, 1988 to March 31, 1990. MSC reported and remitted unemployment insurance contributions utilizing a rate of 5.4 percent when the correct rate was 1.5 percent. The MSC also charged Federal projects based on the incorrect rate. Due to a clerical error, the overpayment made to PRDOL was $168,990 while the overcharge to Federal projects was $177,990.

Although MSC became aware of the overpayment in 1990, MSC did not take timely action to seek recovery of the overpayment from PRDOL nor to credit Federal programs for the overcharge. For reporting purposes, MSC attempted to recover the overpayment from the PRDOL by withholding and not remitting unemployment insurance contributions during the period April 1, 1990 to December 31, 1994. On December 15, 1995, the PRDOL authorized MSC to utilize the overpayment as a credit against subsequent reporting periods where MSC had withheld payments. The settlement resolves the issue of the overpayment with PRDOL.

However, with respect to the charging of unemployment insurance to Federal projects, MSC took no action. The MSC did not attempt to refund or credit Federal projects for the identified overpayment.
The Office of Management and Budget Circular A-21 sets forth principles for determining costs applicable to grants, contracts, and other agreements with educational institutions. Section C discusses Basic Considerations and item number 5 defines the term applicable credits, in part, as follows:

The term applicable credits refers to those receipts or negative expenditures that operate to offset or reduce direct or indirect cost items. Typical examples of such transactions are: purchase discounts, rebates or allowances; and adjustments of overpayments or erroneous charges.

The identified overpayment of unemployment insurance to the PRDOL is an applicable credit which is due Federal programs and the overpayment should have been processed when MSC became aware of the credit in 1990. While MSC overpaid the PRDOL $168,990, the actual overcharge to Federal projects was $177,990. Accordingly, MSC must immediately refund the $177,990 to the Federal government and implement controls that will ensure that Federal projects will be credited in a timely manner in the future.

**Penalty Rates**

Effective January 1, 1994, PL 52 §8(2)(B) authorized PRDOL to impose a minimum of a 4.4 percent (penalty) contribution rate on employers who had not made timely remittances or filings of quarterly contribution reports as of June 30 of the previous year. For calendar years 1994 and 1995, PRDOL assessed a penalty rate of 4.4 percent to MSC rather than an experience rate. The penalty rate was assigned by the PRDOL because MSC was seriously delinquent in submitting required quarterly unemployment reports and in remitting contributions due to PRDOL.

Federal regulations at OMB Circular A-21, §J-18 (Fines and Penalties) provide that costs such as penalties, interest, fines and surcharges "... resulting from violations of, or failure of the institution to comply with, Federal, State Local or Foreign laws and regulations are unallowable..." expenditures for Federal reimbursement.

Since the 4.4 percent rate assigned by PRDOL is a penalty rate which reflects MSC’s non-compliance with unemployment reporting requirements, the rate should not be used by MSC to charge Federal projects.

We calculated an estimated experience rate for 1994 and 1995 by making the assumption that all payments had been made on time by MSC. We estimate that for 1994 the experience rate should have been 2.5 percent while for 1995 the
experience rate should have been 1.9 percent. We then computed the effect of using the penalty rate versus our estimated experience rates. For 1994, the estimated rate would have resulted in $36,698 less in unemployment costs being charged to Federal programs while for the first six months of 1995, federal projects were overcharged $44,579. Accordingly, we are recommending a financial adjustment for the difference between the penalty rate and the estimated experience rate for calendar year 1994 and the first six months of 1995. MSC should also review all unemployment reports filed after our audit period to determine whether any additional penalty rates were utilized and charged to Federal programs. If additional penalties were charged to Federal projects, MSC should credit the projects or discuss with the HHS resolution official whether the overcharge could be handled as part of the resolution of this audit report.

We are also pleased to note that as a result of our draft report and additional assistance from us, MSC was able to establish an experience rate of 1.9 percent for 1996 which was lower than the 2.5 percent rate initially proposed by the PRDOL.

**Recommendations**

We recommend that MSC:

1. Immediately refund a total of $259,267 to the Federal government representing:
   
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
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<tr>
<td>Overcharges (1/1/88-3/31/90)</td>
<td>$177,990</td>
</tr>
<tr>
<td>Use of Penalty rate (1/1/94-12/31/94)</td>
<td>36,698</td>
</tr>
<tr>
<td>Use of Penalty rate (1/1/95-6/30/95)</td>
<td>44,579</td>
</tr>
</tbody>
</table>

2. Implement procedures to ensure that applicable credits to Federal projects are processed in a timely manner in the future.

3. Review all unemployment reports filed after our audit period to determine whether any additional penalty rates were utilized and charged to Federal programs. If additional penalties were charged to Federal projects, MSC should credit the projects or discuss with the HHS resolution official whether the overcharge could be handled as part of the resolution of this audit report.
C. CASH MANAGEMENT

Our audit of unemployment insurance costs under the contribution method also disclosed serious weaknesses in MSC's cash management procedures.

Section 74.22 (a) of 45CFR, Part 74 indicates that:

"Unless inconsistent with statutory program purposes, payment methods shall minimize the time elapsing between the transfer of funds from the U.S. Treasury and the issuance or redemption of checks, warrants, or payment by other means by the recipient. ..."

Section 74.22 (b) further indicates that:

"Unless inconsistent with statutory program purposes, cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of the cash advances shall be as close as is administratively feasible to the actual disbursement by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs."

Contrary to these regulations, our review disclosed that the accounting office of MSC notified its cash management office when it accrued or obligated the unemployment insurance expense so that Federal funds could be drawn down under the letter of credit or the advanced payment system. However, MSC had no plans to actually liquidate these expenses because of the existence of a prior period overpayment. Accordingly, there was no reason for the accounting office to notify the cash management office that a draw down of Federal funds was needed because no actual disbursement were planned.

Recommendation

To improve cash management, we recommend that senior management at MSC implement controls that will ensure that Federal funds are only drawn down to meet immediate disbursement needs for unemployment insurance expenses as well as any other expenses that are to be charged to Federal projects.
AUDITEE'S COMMENTS

In a letter dated December 14, 1995, MSC agreed with the five recommendations designed to strengthen controls over unemployment insurance reporting. In addition, MSC agreed with the recommended financial adjustment of $259,267 and our cash management recommendation. MSC complete comments are contained in the Appendix.

AUDITORS COMMENTS

We are pleased that MSC agreed with our recommendations. We commend management for the prompt action they took in entering into negotiations with PRDOL and for reaching settlement. We encourage management to fully implement all the recommendations in this report. We would like to thank management and the staff of MSC for their cooperation and assistance during our audit.
APPENDIX
December 14, 1995

Mr. John Tournour  
Regional Inspector General  
for Audit Services  
Department of Health and Human Services  
Jacob K. Javits Federal Building  
26 Federal Plaza  
New York, NY

Dear Mr. Tournour:

RE: Draft Report Titled: "Review of Unemployment Insurance Costs Charged to Federal Programs by the University of Puerto Rico, Medical Sciences Campus, Under the Contribution Method" - Common Identification Number A-02-94-02002

We appreciate your granting us a time extension to present our comments and action plan regarding the aforesaid audit report.

We accept your findings. However, it is convenient to mention at this point that the reported actions were made without any malice toward the Federal Government. It is our policy to comply always with all applicable Federal Laws and Regulations.

Quarterly Unemployment Insurance Reporting

In order to strengthen the quarterly unemployment insurance reporting, we accept the five recommendations you enumerated on pages 5 and 6 of your report. Our Finance Director, Mr. Juan Martinez-Echevarria, will be responsible for their implementation.

We will also search for the assistance of a consultant for auditing and reviewing all procedures related to unemployment insurance taxes monitoring, in a quarterly basis, the adequacy of rates and filing of any claims.
Reimbursement of Overcharges to Federal Proyects

We accept and will implement the five recommendations enumerated on pages 9 and 10 of your Report. Therefore, we recognize the indebtedness our Campus has in the amount of $259,267 with the Federal Government.

In regard to the indebtedness with the Puerto Rico Department of Labor, we have already initiated contacts to resolve the issue on the overpayment of $168,990 due to the use of an incorrect unemployment rate for the 27 month period, January 1st. 1998 to March 31st., 1990. Moreover, in the event of protracted negotiations with the Puerto Rico Department of Labor, and to stop their invoicing us at penalty rates, we may have to pay the amount of $426,140 and afterward claim reimbursement. Such amount was pointed out by Mr. Héctor Rosas, Tax Revenue Interim Director of the Puerto Rico Department of Labor on December 13, 1995.

There is no doubt that the aggregate amount about $685,407 represents a serious budget impairment. For such reason, we respectfully request you to allow us the repayment of our indebtedness with the Federal Government during a six year period requiring annual payments of $43,211. However, if we are successful in having the Puerto Rico Department of Labor waive all fines, penalty and interest costs and apply the overpayment of $168,990 as a credit to subsequent reporting periods, our indebtedness to the Federal Government after the appropriate adjustments, will be substantially reduced.

Cash Management

We accept and will implement your recommendation on page 11 of your Report.

We duly appreciate your assistance and recommendations. We look forward to a continuous good relationships with your Department.

Cordially yours,

Jorge L. Sánchez, MD
Chancellor

JLS\llt