

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**PUERTO RICO CLAIMED
UNALLOWABLE COMMUNITY
SERVICES BLOCK GRANT
RECOVERY ACT COSTS FOR
INSTITUTO SOCIO-ECONÓMICO
COMUNITARIO, INC.**

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



**James P. Edert
Regional Inspector General**

**April 2013
A-02-11-02015**

Office of Inspector General

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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

BACKGROUND

The Community Services Block Grant (CSBG) program was authorized by the Omnibus Reconciliation Act of 1981, P.L. 97-35, (as amended in 1998 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 poverty in communities.

Within the U.S. Department of Health and Human Services, the Administration for Children and Families (ACF), Office of Community Services administers the CSBG program.

The CSBG funds a State-administered network of more than 1,000 local community action agencies (CAA) that deliver programs and services to low-income Americans. The CAAs provide services and activities addressing employment, education, better use of available income, housing, nutrition and health to combat the causes of poverty.

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), authorized supplemental appropriations for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and State and local fiscal stabilization. The Recovery Act provided \$1 billion to the CSBG program for fiscal years (FY) 2009 and 2010. As with annually appropriated CSBG funds, Recovery Act funds were to be used to reduce poverty, revitalize low-income communities, and help low-income Americans. In addition, CSBG services funded by the Recovery Act were to be provided on or before September 30, 2010. Recovery Act grant funds were intended to cover additional costs for the same types of services.

ACF Information Memorandum Transmittal No. 109, dated April 9, 2009, states that, in obligating and expending CSBG Recovery Act funds, "... services must be provided on or before September 30, 2010, and liquidated on or before December 29, 2010."

In the Commonwealth of Puerto Rico, the Department of the Family (the department) administers the CSBG program. ACF awarded the department \$42,122,412 in Recovery Act funds for its CSBG program, which includes four CAAs.

Instituto Socio-Económico Comunitario, Inc. (INSEC) is a nonprofit CAA that provides education, employment, health care, economic development, community development, homeless prevention, housing improvement, emergency assistance programs, and other related services throughout Puerto Rico. The department awarded INSEC \$14,827,089 in CSBG Recovery Act funds for the period October 8, 2009, through September 30, 2010.

OBJECTIVE

Our objective was to determine whether the CSBG Recovery Act costs that the department claimed for INSEC were allowable in accordance with applicable Federal requirements.

SUMMARY OF FINDINGS

Of the \$4,135,579 in CSBG Recovery Act costs that the department claimed on behalf of INSEC and that we reviewed, \$4,104,823 was allowable under the terms of the grant award and applicable Federal requirements. However, the department claimed \$30,756 in costs for services on behalf of INSEC that were unallowable because the services were not provided within ACF's mandated timeframe. The department also claimed \$254,656 in CSBG Recovery Act grant funds that it awarded to INSEC; however, INSEC did not expend the grant funds and, at the end of our fieldwork, the department had not returned these funds to the Federal Government.

These deficiencies occurred because INSEC misinterpreted the Federal requirements in claiming costs under the CSBG Recovery Act grant.

Because INSEC charged \$30,756 in unallowable costs and did not obligate \$254,656 in grant funds, these funds could not be used to reduce poverty, revitalize low income communities, and empower individuals to become fully self-sufficient.

RECOMMENDATION

We recommend that the department return \$285,412 to the Federal Government (\$30,756 in unallowable costs and \$254,656 in unobligated grant funds). We are not making a recommendation to address INSEC's misinterpretation of Federal requirements in claiming costs under the CSBG Recovery Act grant because the grant period ended.

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO, INC., COMMENTS

In its written comments on our draft report, INSEC concurred with our findings and described steps that it has taken or plans to take to address our recommendation, including the return of \$254,656 in unobligated funds to the department. INSEC's comments are included in their entirety as Appendix A.

DEPARTMENT OF THE FAMILY COMMENTS

In its written comments on our draft report, the department concurred with our findings and provided information on corrective actions that it has taken or plans to take to address our recommendation, including the return of \$254,656 in unobligated funds to the Federal government. The department's comments are included in their entirety as Appendix B.

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INTRODUCTION

BACKGROUND

Community Services Block Grant Program

The Community Services Block Grant (CSBG) program was authorized by the Omnibus Reconciliation Act of 1981, P.L. 97-35, (as amended in 1998 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 poverty in communities.

Within the U.S. Department of Health and Human Services, the Administration for Children and Families (ACF), Office of Community Services administers the CSBG program.

The CSBG funds a State-administered network of more than 1,000 local community action agencies (CAA) that deliver programs and services to low-income Americans. The CAAs provide services and activities addressing employment, education, better use of available income, housing, nutrition and health to combat the causes of poverty.

The American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), authorized supplemental appropriations for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and State and local fiscal stabilization. The Recovery Act provided \$1 billion to the CSBG program for fiscal years (FY) 2009 and 2010. As with annually appropriated CSBG funds, Recovery Act funds were to be used to reduce poverty, revitalize low-income communities, and help low-income Americans. In addition, CSBG services funded by the Recovery Act were to be provided on or before September 30, 2010. Recovery Act grant funds were intended to cover additional costs for the same types of services.

Puerto Rico Department of the Family

Section 676(a) of the CSBG Act requires each State to designate an appropriate State agency to act as the lead agency for carrying out the State's CSBG activities. In the Commonwealth of Puerto Rico, the Department of the Family (the department) administers the CSBG program. ACF awarded the department \$42,122,412 in Recovery Act funds for its CSBG program, which includes four CAAs.

Instituto Socio-Económico Comunitario, Inc.

Instituto Socio-Económico Comunitario, Inc. (INSEC) is a nonprofit CAA that provides education, employment, health care, economic development, community development, homeless prevention, housing improvement, emergency assistance programs, and other related services throughout Puerto Rico. The department awarded INSEC \$14,827,089 in CSBG Recovery Act funds for the period October 8, 2009, through September 30, 2010.

In January 2011, we issued a report with the results of a limited scope review at INSEC as part of a nationwide series of reviews of CAAs that received funding under the Recovery Act.¹ Our report disclosed weaknesses related to the adequacy of INSEC’s safeguarding of Federal funds and written accounting policies and procedures. In addition, we could not determine whether INSEC was financially viable because audited financial statements for calendar years 2006 through 2009 were not available at the time of our review.²

Federal Requirements for Grantees

Section 678D(a)(1)(B) of the CSBG Act requires that States that receive CSBG funds ensure that cost and accounting standards of the OMB apply to a recipient of the funds under this subtitle. As a result, ACF determined that non-profit Community Action Agencies are subject to 45 CFR pt. 74. Federal regulations (45 CFR § 74.27(a)) state that the allowability of costs for non-profit organizations will be determined in accordance with 2 CFR pt. 230 (formerly OMB Circular A-122), *Cost Principles for Non-Profit Organizations*.

Pursuant to 2 CFR pt. 230, App. A, A.2.a. and A.2.g., to be allowable under a Federal award, costs must be reasonable, allocable, and adequately documented.

ACF Information Memorandum Transmittal No. 109, dated April 9, 2009, states that, in obligating and expending CSBG Recovery Act funds, “... services must be provided on or before September 30, 2010, and liquidated on or before December 29, 2010.”

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the CSBG Recovery Act costs that the department claimed for INSEC were allowable in accordance with applicable Federal requirements.

Scope

We reviewed the department’s claim of \$4,135,579 for INSEC’s program expenditures funded by the Recovery Act award for the period October 8, 2009, through September 30, 2010.³ This review is part of a series of audits planned by the Office of Inspector General to provide oversight of funds provided by the Recovery Act. We limited our review of internal controls to those that were significant to the objective of our audit.

¹ *Results of Limited Scope Review at Instituto Socio-Económico Comunitario, Inc.* (A-02-10-02015).

² We recommended that ACF consider the information presented in the report in assessing INSEC’s ability to operate its CSBG program in accordance with Federal regulations. INSEC concurred with our findings and indicated steps that it had taken or planned to take to address our findings.

³ Of \$14,827,089 CSBG Recovery Act funds awarded, INSEC claimed costs totaling \$14,572,433; of this amount we reviewed costs claimed totaling \$4,135,579.

We performed our fieldwork at the department's and INSEC's offices in San Juan, Puerto Rico from July 2011 through November 2011.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- interviewed department officials to gain an understanding of their fiscal and program monitoring procedures;
- interviewed INSEC officials to gain an understanding of the costs charged under the award;
- reviewed the terms and conditions of the CSBG Recovery Act agreement between the department and INSEC;
- reviewed INSEC's Office of Management and Budget (OMB) Circular A-133 single audit report for FY 2008;⁴
- reviewed INSEC's financial and accounting policies and procedures related to the CSBG Recovery Act program;
- reviewed INSEC's bylaws, minutes from its Board of Directors' meetings, and organizational chart;
- reviewed correspondence between the department and INSEC officials;
- reconciled INSEC's CSBG Recovery Act financial status report for FY 2010 to its accounting records;
- judgmentally selected and reviewed 203 transactions totaling \$4,135,579, (\$547,191 in salary and related costs, \$3,436,882 in consultant and beneficiary services costs and \$151,506 in other direct costs); and
- discussed our findings with department and INSEC 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.

⁴ INSEC's A-133 audit reports for FYs 2009 and 2010 were not available at the time of our audit.

FINDINGS AND RECOMMENDATION

Of the \$4,135,579 in CSBG Recovery Act costs that the department claimed on behalf of INSEC and that we reviewed, \$4,104,823 was allowable under the terms of the grant award and applicable Federal requirements. However, the department claimed \$30,756 in costs for services on behalf of INSEC that were unallowable because the services were not provided within ACF's mandated timeframe. The department also claimed \$254,656 in CSBG Recovery Act grant funds which it awarded to INSEC; however, INSEC did not expend the grant funds and, at the end of our fieldwork, the department had not returned these funds to the Federal Government.

These deficiencies occurred because INSEC misinterpreted the Federal requirements in claiming costs under the CSBG Recovery Act grant.

Because INSEC charged \$30,756 in unallowable costs and did not obligate \$254,656 in grant funds, these funds could not be used to reduce poverty, revitalize low income communities, and empower individuals to become fully self-sufficient.

COSTS FOR SERVICES NOT PROVIDED WITHIN MANDATED TIMEFRAME

Section 678D(a)(1)(B) of the CSBG Act requires that States that receive CSBG funds ensure that cost and accounting standards of the OMB apply to a recipient of the funds under this subtitle. As a result, ACF determined that nonprofit CAAs are subject to 45 CFR pt. 74. The regulations at 45 CFR § 74.27(a) state that the allowability of costs for nonprofit organizations will be determined in accordance with 2 CFR pt. 230 (formerly OMB Circular A-122), *Cost Principles for Non-Profit Organizations*.

Pursuant to 45 CFR 74.71(b), grantees must liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions. Further, ACF Information Memorandum Transmittal No. 109, dated April 9, 2009, states that, in obligating and expending CSBG Recovery Act funds, "... services must be provided on or before September 30, 2010, and liquidated on or before December 29, 2010."

INSEC claimed costs totaling \$30,756 for services not provided on or before September 30, 2010 (ACF's mandated timeframe). Therefore these costs were unallowable. Specifically, INSEC claimed:

- incentive bonuses for program participants totaling \$11,000 for services performed from October through December 2010,
- accounting services totaling \$8,680 for November and December 2010,
- program participant stipends⁵ totaling \$8,250 for October 2010, and

⁵ The stipends were paid to program participants for "transport services."

- rent totaling \$2,826 for October 2010.

These deficiencies occurred because INSEC misinterpreted the Federal requirements in claiming costs under the CSBG Recovery Act grant.

UNOBLIGATED FUNDS NOT REFUNDED

Pursuant to 45 CFR §§ 92.50(d)(2) and 74.71(d), grantees must promptly refund to the Federal agency any balance of unobligated funds not authorized to be retained for use on other grants. INSEC did not refund unobligated CSBG Recovery Act grant funds to the department totaling \$254,656 as of the end of fieldwork. INSEC officials stated that INSEC did not return the unobligated funds awarded to it by the department during the grant period because INSEC was awaiting action from the department regarding a request to extend the amount of time for which INSEC could use the funds.

RECOMMENDATION

We recommend that the department return \$285,412 to the Federal Government (\$30,756 in unallowable costs and \$254,656 in unobligated grant funds).⁶

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO, INC., COMMENTS

In its written comments on our draft report, INSEC concurred with our findings and described steps that it has taken or plans to take to address our recommendation, including the return of \$254,656 in unobligated funds to the department. INSEC's comments are included in their entirety as Appendix A.

DEPARTMENT OF THE FAMILY COMMENTS

In its written comments on our draft report, the department concurred with our findings and provided information on corrective actions that it has taken or plans to take to address our recommendation, including the return of \$254,656 in unobligated funds to the Federal government. The department's comments are included in their entirety as Appendix B.

⁶ We are not making a recommendation to address INSEC's misinterpretation of Federal requirements in claiming costs under the CSBG Recovery Act grant because the grant period ended.

APPENDIXES

APPENDIX A: INSTITUTO SOCIO-ECONÓMICO COMUNITARIO, INC., COMMENTS

Instituto Socio-Económico Comunitario, Inc
PO BOX 9024142
San Juan, PR 00902-4142



September 13, 2012

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

Report Number: A-02-11-02015

Dear Mr. Edert:

Enclosed are our written comments about the draft report entitled of *Puerto Rico Claimed Unallowable Community Services Block Grant Recovery Act Costs for Instituto Socio-Económico Comunitario, Inc.*, issued on August 30, 2012 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.

Sincerely,

/Francisco Aponte/
Financial Management
Instituto Socio-Económico Comunitario (INSEC), Inc.

/Arleen Padua/
Interim Executive Director
Instituto Socio-Económico Comunitario (INSEC), Inc.

Enclosure

Report Number: A-02-11-02015

Incentive bonuses for program participants totaling \$11,000 for services performed from October through December 2010

We concur with this finding.

These incentives were paid for the participation of eligible participants in the employment program under INSEC's Transport Project during their training process which was a required component of the Employment Program included as parts of the American Recovery and Reinvestment Act of 2009 and Public Law 105-285, Subtitle B-Oct. 27 1998 and in our accepted CSBG ARRA work plan. As specified in our approved work plan, they were participants identified as unemployed low income individuals were interested in becoming professional bus drivers.

These activities were important to fulfill our work plan in order to reach the goals of the Program. This activity was allowed under the program to satisfy the identified necessities, but the finding is based in the time the disbursement was made.

Corrective Action: We will establish communication with the Puerto Rico Department of Family to coordinate the reimbursement of \$11,000.

Accounting services totaling \$8,680 for November and December 2010

We concur with this finding.

Hiring the firm PKF LLP, Certified Public Accountants and Advisors (PKF), was to satisfy the following needs by INSEC: (1) to accelerate the pre-intervention procedures to all supporting documents to let us be able to liquidate all obligations during the prescribed time; (2) to fulfill the requirements of the closing period of the Program (ARRA); and (3) the availability of funds to be used to liquidate all the obligations incurred as of September 30, 2010. With this contract we implement procedures to safeguard the ARRA funds, to establish high levels of transparency in the transactions, and to comply with time frame to liquidate all obligations.

These activities were important to fulfill our work plan in order to liquidate all obligations incurred as of September 30, 2010. This activity was allowed under the program to satisfy the identified necessities, but the finding is based in the time the disbursement was made.

Corrective Action: We will establish communication with the Puerto Rico Department of Family to coordinate the reimbursement of \$8,680.

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Program participant stipends totaling \$8,250 for October 2010

We concur with this finding.

These activities were important to fulfill our work plan in order to reach the goals of the Program as specified in the contract agreement signed before September 30, 2010 with these participants. Due the time the disbursement was made we recognize this finding.

Corrective Action: We will establish communication with the Puerto Rico Department of Family to coordinate the reimbursement of \$ \$8,250.

Rent totaling \$2,826 for October 2010

We concur with this finding.

Corrective Action: We will establish communication with the Puerto Rico Department of Family to coordinate the reimbursement of \$2,826.

OIG's Finding: Unobligated funds not refunded

We concur with the finding.

On May 9, 2012, we returned the unused funds balance for the amount of \$254,655.99 to Puerto Rico Department of Family with the certified check number 103103000047061 in compliance with the closeout and liquidation requirements and according to our Closeout Report for ARRA funds.

We want to mention that our delay in the reimbursement of the funds to Puerto Rico Department of Family was a result of our intention to be informed about the possibility to request and receive an approved waiver for the uses of these funds. We continued working hard due several needs we identified in the population in socio-economic disadvantage. We identified services requests by participants that were still on our waiting list and several projects that could be realized. In our responsibility as a community based organization, our intention was to perform all these pending activities with the unused funds under the ARRA requirements with an approved waiver. Our administrative efforts were clear; the only way to use these funds was if we receive the waiver. We used all communication procedures available to obtain any information about the procedures to obtain a waiver but the limited communication about this matter from Puerto Rico Department of Family and because we haven't any information to apply it, at that moment we were pending to return the unused funds.

As we discussed in several times we recommend to Puerto Rico Department of Family to improve the communication with the subrecipients in order to facilitate our efforts to

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fulfill the necessities of our participants in the use of available funds. We are more than willing to work towards this goal with Puerto Rico Department of Family.

Corrective Action: No further action is required. Unused funds were returned on May 9, 2012.

†

Other Matters

Finally, we want to inform that we are in compliance with OMB Circular A-133. Our audited financial statements for September 30, 2009 and 2011 are being issued. The audited financial statements for the years ended on September 30, 2006 through 2007 were provided to OIG's auditors during their July 27, 2011 intervention, and a copy of the audited financial statements for the fiscal year ended on September 30, 2008 was sent by email to OIG on November 14, 2011.

/Francisco Aponte/
Financial Management
Instituto Socio-Económico Comunitario (INSEC), Inc.

/Arleen Padua/
Interim Executive Director
Instituto Socio-Económico Comunitario (INSEC), Inc.

†

Office of Inspector General note: We did not address this subject as a finding in our draft report to INSEC. However, we did refer to this subject in our Methodology section, in which we noted that INSEC's Office of Management and Budget Circular A-133 single audit reports subsequent to fiscal year 2008 were not available at the time of our fieldwork. (Refer to footnote 4).

APPENDIX B: DEPARTMENT OF THE FAMILY COMMENTS



March 5, 2013

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

REPORT NUMBER: A-02-11-02015
Unallowable Costs for Instituto Socioeconómico Comunitario Inc. (INSEC)

We appreciate the opportunity to comment on the audit findings, as follows.

Finding 1: \$254,655.99 in unobligated grant funds:

We concur with this finding. On May 9, 2012, the Department of the Family received from INSEC, a check payable to the Secretary of the Treasury (check number 103103000047061 from Banco Popular and dated on May 8, 2012). This check was for the amount of \$254,655.99, product of unobligated CSBG-ARRA funds. This money was deposited in the "*Banco Gubernamental de Fomento Económico*".

The money will be transferred to the Federal Government during the week of March 4, 2013.

Finding 2: \$ 30,756 in unallowable cost:

We concur with this finding. In a letter dated February 27, 2013, the Puerto Rico Administration for Children and Families (ADFAN, for its Spanish acronym) formally requested from INSEC the reimbursement of \$30,756 in unallowable costs. INSEC personnel agreed to return such amount, upon receipt of a formal written request.

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Corrective Action:

We will be meeting with INSEC during this month to address the communication problems they refer to, in their letter of September 13, 2012. ADFAN did make concerted efforts, through written communications requesting the reimbursement of the \$30,756 in unallowable costs. We had also clarified, in written, the reasons why a waiver was not appropriate and also referred them to the OCS Program Specialist, in case of further doubts.

We are confident that the issue described will be resolved promptly and to the satisfaction of both INSEC and ADFAN.

Cordially,


Idalia Colón Rondón, MTS
Secretary
Puerto Rico Department of the Family

C. Francisco Aponte
Director Interino
INSEC