



November 8, 2021

Jorge Peña
Team Leader
SAMHSA, Office of Financial Resources
Office of Financial Advisory Service

Re: Response to Follow-Up - Administrative Review Application No. SM007297/
SMo82575/ SMo83882 (PAIMI)

Dear Mr. Peña:

This letter is in response (the Response) to the corrective actions issued by the to the Substance Abuse and Mental Health Services Administration (SAMHSA) in its letter of October 8, 2021, captioned as “Follow-Up to Administrative Review Application No. SM007297 /SMo82575/SMo3882 (PAIMI),” (Administrative Review-PAIMI).

The Executive Office of the Puerto Rico Protection and Advocacy System (PRPA) has taken actions to correct findings and has been training personnel and working closely with The Puerto Rico Treasury Department (Treasury Department) and the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF, for its Spanish acronym) to establish strengthened working processes by providing oversight and a dedicated staff member to work in close collaboration with the Treasury Department, and PRPA to ensure consistent payroll adjustment and reconciliation methods. Another central feature of said actions includes personnel training and instituting Standard Operating Procedures (SOP) and Manuals. Despite all the measurable actions PARPA has implemented, it is still necessary to provide background details that may have not been fully described in the past, which were needed to support the responses to each item discussed in your Administrative Review-PAIMI letter.

Background

As noted in this Response, a background is necessary to fully depict the way in which PRPA is obliged to operate. Based on the noncompliance findings stated in the Administrative Review-PAIMI letter, SAMHSA may have misconstrued previously submitted documentation. And here, we provide the technical and substantive explanations of how PRPA’s operations are dictated by the obligations imposed pursuant to the laws of Puerto Rico alongside 45 CFR Part 75, Uniform Administrative Requirements, Cost Principles, and Audit Requirements (Uniform Administrative Requirements).

PRPA is an entity under the jurisdiction of the Government of Puerto Rico obligated to abide by all state laws and regulations. The federal funds awarded to PRPA are managed by PRPA but the Treasury Department, holds the government accounting system.

The Treasury Department was constitutionally created and one of its main duties is to ensure integrity and accountability throughout all financial management systems utilized by all agencies. To that end, the Integrated and Puerto Rico Financial System (PRIFAS) was created as the centralized processing and accounting units for all federally funded accounts. PRIFAS provides a nerve center for compliant accounting and verifiable transactions for these federal agencies, including PRPA. As a fiscal agent, the Puerto Rico Treasury Department performs the disbursements of all grants' expenditures of PRPA, and transactions are recorded in PRIFAS. The Treasury Department has instituted an official process for creating federal funds' accounts explained in detail in the circular letter No. 1300-20-06.¹ In addition, PRIFAS has a chart of accounts and unique codes for expenditures and transactions. The chart of accounts², contemplates an allocation for expenses and objects of expenditures to enforce built-in controls, for the recordation of duly certified and approved disbursements. The Treasury Department has a "payroll module" in its accounting software that manages the human resources and payroll system (RHUM, for its Spanish acronym). This module in RHUM is integrated with PRIFAS.

By way of background, post Payroll expense journal entries are required in all PRIFAS' accounts codes that were approved and created within the system. The PRIFAS system does not allow for staffs' salaries to be allocated amongst federal programs. This accounting glitch has now been corrected by transferring all allocated employees to a General Fund for payroll accounts, commonly referred to as "111 Accounts" or "General Fund." Every month, an accounting journal entry must be made from the General Fund to the PAIMI account to allot the payroll expense for employees who are not dedicated 100% to PAIMI. All these disbursements are only issued if approved under the directives of PRPA's budget narrative³ and PAIMI's approved budget.⁴

By transferring payrolls to this General Fund, then the accounting deficiencies found in the Administrative Review-PAIMI are hence corrected. Entries in these accounts are supplied and processed bi-weekly. The way in which this General Fund removes deficiencies is by updating specific PRPA account codes designated for employee salary payment in RHUM, identifying the disbursements to be paid from the 111 general fund. With this change, there is a clear and distinct method of preventing any disbursements of a federal grant's funds without prior reconciliation of time and attendance of PRPA's employees. To further strengthen these efforts to ensure that time is properly allocated among their federal grants and aligned with PRPA's approved budget's cost objectives.

With the premises outlined in the foregoing background, we can then address: (1) the four areas of noncompliance raised in the Administrative Review-PAIMI, which warrants close attention, (2) the revised corrective actions implemented, and (3) the eleven (11) statements of information requested.

¹01_Treasury_CircularLettter_1300_20_06_Eng

² 02_PRIFAS_ChartofAcct_Eng

³ 03_PAIMI-BudgetNarrative_FFy21

⁴ 04_PAIMI_ApprovedBudget_FFy21

(1) Four Areas of Noncompliance Raised in the Administrative Review-PAIMI

I. Commingling of Budget Categories

a) Accounting reports do not identify the personnel being charged to the SAMHSA grant. Instead, PRPAS, on a monthly basis, manually enters personnel expenses to the SAMHSA project code as a one lump sum journal entry (JE) based on a spreadsheet.

Compensation is not sourced through PAIMI alone. There are nine distinct programs in PRPA, where only five (5) employees are devoted full-time to PAIMI and the remainder 30 positions receive a salary distinctly funded as dictated by the percentages of time devoted to each program. To avoid confusion, employees who are not 100% dedicated to the PAIMI program have been moved to the 111 General Fund. Twice monthly, adjustments will be made from the 111 General Fund against the PAIMI account for the hours worked by these employees according to the submitted timesheets. For your reference, the “DistributionPerProgramFY21”⁵ evinces PRPA’s actions to ensure operational integrity in the time allocations. In addition, the SOP for Effort Reporting⁶ has been developed.

b) The JE used to record personnel expenses as one lump sum are not fully reconciled. PRPAS makes two entries, one as a placeholder to record 100% level of effort (LOE) for its employees, and a second JE to adjust personnel expenses based on the approved budgeted LOE rates. However, PRPAS does not fully reverse the initial entry made as a placeholder, resulting in overstated personnel expenses charged to the grant.

Employees who are not 100% dedicated to the PAIMI program have been moved to the General Fund. Twice monthly, adjustments will be made to this General Fund to charge PAIMI for the hours consumed by these employees according to the submitted timesheets.

c) PRPAS does not have unique object codes in its accounting system to capture and accumulate all costs approved from its budget application.

The Treasury Department is the custodian of federal funds, and it has created PRIFAS to solely serve this purpose. PRIFAS is the nerve center of federal grants management and it is entrusted with designating object codes. The Grant/Project Management module integrated into the PRIFAS System allows allocations of a certain amount from the federal grant to carry out several projects. Also, each Project is distinguished within the module and defined as an activity that has its own identification and specific allocated amounts of the federal grant handled by the agency.

⁵ 05_Distribution_Per_Program_FFY21

⁶ 06_SOP_EffortReporting_PRPA

We are including a copy of Circular Letter 1300-20-067 and a copy of the English translation of the approved Chart of Accounts⁸.

II. Commingling of Labor Costs – Inadequate documentation

PRPAS does not have an adequate timesheet system in place for employees, engaged in work on federal awards, to properly record all hours worked and not worked on a daily basis. Further, hours charged to the SAMHSA projects are based on budgeted LOE instead of actual hours performed on the project.

The PRPA has taken meaningful steps to ensure that charges to federal awards for salaries and fringe benefits are based on records that accurately reflect the work performed by the program's staff members.

To this end, PRPA has undertaken various tasks, including:

1. Four (4) training sessions on the functionalities of the Disability Advocacy Database (DAD) System.
2. Review sessions will continue on November 26, December 2, and December 16 of 2021.
3. Agency-wide issuance of a Circular Letter with official instructions regarding time entries in the DAD System⁹
4. Team meeting held on October 29, 2021, to discuss time entry responsibilities and importance of strict compliance.¹⁰
5. Communication to staff indicating time allocation for federal programs assigned, according to the approved distribution for Fiscal Year 2021¹¹. This communication was sent individually to each staff member on October 28, 2021. Subsequently, this information will be communicated to each staff member at the beginning of each fiscal year once the Executive Director certifies the Budget for that year. To this end, PRPA has developed an SOP for Budget Certification¹² with the purpose of guaranteeing that budget accounts are registered in PRIFAS system according to the approved budget each year and employees receive communication of the approved time allocations.
6. Employee Timesheets currently include a Fund category labeled *Fondo Programático Administrativo* which is being revised to more accurately reflect the administrative tasks performed by the employee¹³.
7. A SOP for Time and Effort Recording in the DAD System was developed and shared in the PRPA employee SharePoint.¹⁴

⁷ Refer to attachment 1

⁸ Refer to attachment 2

⁹ 09_PRPA_Internal_CircularLetter_DADTimeregistration

¹⁰ 10_PRPA_TeamMeetingMinutes_2021Oct26

¹¹ Refer to attachment 5

¹² 12_SOP_BudgetCertification_PRPA

¹³ 13_PRPA_Sample_EmployeeTimeSheet

¹⁴ 14_SOP_DAD_EffortRecording_PRPA

III. Commingling of Labor Costs – Direct Charging PTO Payroll reports and GL for pay period January 2020 reflects Paid Time Off (PTO), such as vacation, holiday, sick and other paid leave, as direct charges to all of the SAMHSA project codes.

Here, PRPA will dispel some key misapprehensions about noncompliance. Commingling here would involve the indistinct utilization of direct and indirect costs. However, the operative inner-workings of PRPA's programs doesn't rely on any source other than SAMHSA awards.

Over the years, this agency has focused completely on enforcing federal civil rights. And while historically there could have been times when reliance on state-based funding was possible, this is no longer the case. The sole source of funding to advocate and serve this highly vulnerable members of the population are the funds SAMHSA has awarded for the PRPA programs. The fiscal crisis of Puerto Rico precludes availability of any support from the government of Puerto Rico in the future. In consequence, any assumption that there are other agencies benefiting from PRPA's services is misguided.

We will address each one of these misapprehensions directly as follows:

(1) Commingling is Foreclosed Because All Sources of Funding Go Directly to Benefit the Program.

There is no such thing as "Commingling of Labor Costs" because all labor costs are properly allocated to PRPA's nine programs and services. PRPA simply does not have the operational capacity to sustain matters beyond the scope of the federally based programs and services.

Therefore, the notion that there are indirect costs incurred by PRPA is a misconception. PRPA primarily serves communities in need of support against discrimination due to their disabilities. While state and territories have a protection and advocacy system (P&A) designated by the state's governor, there are no state based services in PRPA. All our functions relate back to the Developmental Disabilities Assistance and the Bill of Rights Act of 2000 (DD Act). While we may, by the very nature of our work, at times deal with state agencies, the work that PRPA does is specifically focused on safeguarding and addressing violations of federal civil rights disability laws.

(2) PTO is not an indirect cost and there are no indirect costs associated with PRPA.

There are no indirect costs whatsoever associated with PRPA because each and every resource allocated to these awards goes directly to serve the pre-determined needs and functions of the programs, as directed under the approved budget. The FY 2022 budget, as all budgets in the past, show that PTO is paid to employees whose services are dedicated to serving solely the nine programs, including PAIMI.

The compensation for administrative services does not relate back to any state-based program or service and these charges are properly allocated based on the percentage

distribution, so that not one program is sourcing payment for services of another PRPA program. For example, the employees whose functions are 100% dedicated to PAIMI are subject to an accounting method that is geared towards impeding any other sourcing outside PAIMI. New measures have been implemented and now employees are to register their time daily using the DAD system. In essence, all the expenditures are charged directly to the program because the services are for those programs alone, and therefore, must be charged as such.

(3) Direct Charging PTO Payroll reports and GL of Paid Time Off

As explained above, all charging is direct because that is the only purpose served by PRPA. PTO is an allowable charge under 45 CFR 75 § 431 of Uniform Administrative Requirements. Thus, this charge is shown in the payroll reports just as all other reasonable compensation expenses are incorporated. These expenses are nonetheless allocated and calculated separately as well as codified in accordance with Puerto Rico's Chart of Accounts, where each item receives a code.

While each expense allocated appears in a lump-sum form in the report, in practice, these are all entered and accounted for independently. To remedy this practice and avoid the appearance of "direct charging," employees who are not 100% dedicated to the PAIMI program have been moved to the 111 General Fund. Bi-monthly adjustments will be made to the 111 General Fund so that charges to PAIMI for the hours consumed by these employees correlates with the submitted timesheets. For your reference, the "DistributionPerProgramFY21"¹⁵ evinces PRPA's actions to ensure operational integrity in the charges submitted. In addition, the SOP for Effort Reporting¹⁶ has been developed.

(4) PTO such as vacation, holiday, sick and other paid leave, as direct charges to all SAMSHA Project Codes

PTO is an allowable charge under 45 CFR 75 § 431 of the Uniform Administrative Requirements provided that the benefits are reasonable. The criteria for reasonableness is met procedurally and substantively. Procedurally, the calculations are based on predetermined rates and methodologies. Substantively, the benefits are reasonably applied in strict compliance

with:

- Law 26 of 2017 (Law 26);
- Law 379 of 1948 defining 7.5 hours as the time needed to meet the workday requirement (Law 379);
- Accounting Law of the Government of Puerto Rico, Law 230, of 1974 (Law 230) with its

¹⁵ Refer to attachment 5

¹⁶ Refer to attachment 6

corresponding Rule 49.

There is a misunderstanding based on the previous origin of accounts designated for all federal programs and the method in which the automated accounts were shown in reports. At the point of automation completion, these didn't reflect the actual steps customarily taken in strict compliance with accounting principles and practices. With the implementation of transference of PAIMI employee accounts to a General Fund, PRPA will prepare future reporting as mandated by SAMHSA.

IV. Commingling of Direct and Indirect Costs (Inconsistent Treatment of Costs)

As shown in the PAIMI FY 2021 Budget, allocations were calculated in accordance with 45 CFR 75 § 430 (a) (2) requiring, in pertinent, part that:

Compensation for personal services may also include fringe benefits which are addressed in § 75.431. Costs of compensation "are allowable to the extent that they satisfy the specific requirements of this part," and prong "(2) Follows an appointment made in accordance with a non-Federal entity's laws and/or rules or written policies and meets the requirements of Federal."

(2) Revised Corrective Action Plan

In your administrative review, you identified five (5) corrective actions that PRPA must implement to comply with federal regulations. A detailed explanation for each action is provided below:

- **In accordance with 45 CFR Part 75.302 & 45 CFR Part 75.308, establish unique object codes in its accounting system to capture and accumulate costs by budget category (i.e., salaries, fringe benefits, consultants, travel, participant support costs, subcontracts, etc.). Specifically, PRPAS must establish an accounting system that identifies all individual personnel in being charged to the SAMHSA grant either through its GL and/or payroll system, reconcile JEs made for personnel expenses, and reclassify all miscellaneous expenses in accordance with the budget categories;**

The Treasury Department is the custodian of federal funds, and it has created PRIFAS to solely serve this purpose. PRIFAS is the nerve center of federal grants management and it is entrusted with designating object codes. The Grant/Project Management module integrated into the PRIFAS System allows allocations of a certain amount from the federal grant to carry out several projects. Also, each Project is distinguished within the module and defined as an activity that has its own identification and specific allocated amounts of

the federal grant handled by the agency. We are including a copy of Circular Letter 1300-20-06¹⁷ and a copy of the English translation of the approved Chart of Accounts¹⁸.

- **In accordance with 45 CFR Part 75.430, implement an hourly timesheet that encompasses all hours worked and not worked on a daily basis for all employees engaged in work on federal awards and be based on actual hours performed;**

The PRPA has taken meaningful steps to ensure that charges to federal awards for salaries and fringe benefits are based on records that accurately reflect the work performed by the program's staff members. To avoid confusion, employees who are not 100% dedicated to the PAIMI program have been moved to the General Fund. Twice monthly, adjustments will be made to the General Ledger to charge PAIMI for the hours consumed by these employees according to the submitted timesheets.

In addition, PRPA has undertaken various tasks including:

To this end, PRPA has undertaken various tasks, including:

1. Four (4) training sessions on the functionalities of the Disability Advocacy Database (DAD) System.
2. Review sessions will continue on November 26, December 2, and December 16 of 2021.
3. Agency-wide issuance of a Circular Letter with official instructions regarding time entries in the DAD System¹⁹.
4. Team meeting held on October 29, 2021, to discuss time entry responsibilities and importance of strict compliance.²⁰
5. Communication to staff indicating time allocation for federal programs assigned, according to the approved distribution for Fiscal Year 2021²¹. This communication was sent individually to each staff member on October 28, 2021. Subsequently, this information will be communicated to each staff member at the beginning of each fiscal year once the Executive Director certifies the Budget for that year. To this end, PRPA has developed an SOP for Budget Certification²² with the purpose of guaranteeing that budget accounts are registered in PRIFAS system according to the approved budget each year and employees receive communication of the approved time allocations.
6. Employee Timesheets currently include a Fund category labeled *Fondo Programático Administrativo* which is being revised to more accurately reflect the administrative tasks performed by the employee²³.
7. A SOP for Time and Effort Recording in the DAD System was developed and shared in the PRPA employee SharePoint.²⁴

¹⁷ Refer to attachment 1

¹⁸ Refer to attachment 2

¹⁹ Refer to attachment 9

²⁰ Refer to attachment 10

²¹ Refer to attachment 5

²² Refer to attachment 12

²³ Refer to attachment 13

²⁴ Refer to attachment 14

- **In accordance with 45 CFR Part 75.430 & 45 CFR Part 75.431, remove PTO being directly charged to the PAIMI grant award, effective with PRPAS' accounting period 7/1/2021 – 6/30/2022 (FY 2022). PTO is not recoverable directly from grants, but rather must be allocated to all grants, projects and cost centers over an entire cost accounting period through either an indirect cost rate, a fringe benefit rate or adjusted labor billing rates. See PAIMI regulations 42 CFR Part 51.6(d) on administrative rate limitations of 5% for public (state-operated) entities**

PTO are calculated based on the number of days for services rendered as documented by the timesheets. This calculation is dictated by the following laws of Puerto Rico:

- Law 26 of 2017 (Law 26);
- Law 379 of 1948 defining 7.5 hours as the time needed to meet the workday requirement (Law 379);
- Accounting Law of the Government of Puerto Rico, Law 230, of 1974 (Law 230) with its corresponding Rule 49.

The accounting methods employed by PRPA are uniformly applied across the board throughout the Government of Puerto Rico pursuant to the Law 230 of 1974, and the budget was approved by SAMHSA, including the distributions.

Law 26-2017 establishes that every employee of the Government of Puerto Rico has the right to accumulate fifteen (15) days of regular leave and eighteen (18) days of sick leave. These thirty-three (33) days are then multiplied by the 7.5 hours our employees are expected to complete daily, which leaves us with a total of 247.5 hours of PTO per employee. Under PAIMI's total budget, for example, the total salary of PAIMI is \$340,730.99, and once that is divided by 1,950 hours an employee works per year then, the PTO is \$174.73 per hour. These \$174.73 multiplied by 247.5 hours leave a resulting projection of PTO of \$43,246.63 under the approved budget. This calculation is made in accordance with Law 26 of 2017 and Puerto Rico's Law 379 of 1948 defining 7.5 hours as the time needed to meet the workday requirement.

There are no PTO allocations that could be construed as indirect or unreasonable costs. As discussed at length in this response, PRPA is also strictly following the mandate of the Uniform Administrative Requirements under 45 CFR 75. Also, pursuant to Subpart E § 431, Compensation-Fringe Benefits, "are allowable provided that the benefits are reasonable."

In addition, the fringe benefits questioned are provided by law, including:

- Driver's License refers to the "Seguro Choferil" in Spanish. It is mandatory under Law 428 of 1950 (Law 428) requiring insurance for the benefit all employees whose duties include operating a vehicle.
- Christmas Bonuses are paid pursuant to the mandate of Law 148 of 1969

- **In accordance with 45 CFR Part 75.403 & 45 CFR Part 75.413, treat direct and indirect costs consistently and, therefore, remove all administrative/indirect costs being charged directly to the PAIMI grant award, effective with PRPAS' accounting period 7/1/2021 – 6/30/2022 (FY 2022). PRPAS may include these costs as part of an approved de minimis rate (if eligible) or through a negotiated indirect cost rate agreement. See PAIMI regulations 42 CFR Part 51.6(d) on administrative rate limitations of 5% for public (state-operated) entities.**

As shown in the PAIMI FY 2021 Budget, allocations were calculated in accordance with 45 CFR 75.430 (a) (2) requiring, in pertinent, part that:

Compensation for personal services may also include fringe benefits which are addressed in § 75.431.

There are no indirect costs whatsoever associated with PRPA because each and every resource allocated to these awards goes directly to serve the pre-determined needs and functions of the programs as directed under the approved budget. The FY 2022 budget, as all budgets in the past, show that PTO is paid to employees whose services are dedicated to serving solely the nine programs, including PAIMI.

The compensation for administrative services does not relate back to any state-based program or service and these are properly allocated charges, specifically based on the percentage distribution, so that not one program is sourcing payment for services of another PRPA program, as dictated by the approved cost allocation plan. For example, the employees whose functions are 100% dedicated to PAIMI are subject to an accounting method that is geared towards impeding any sourcing other than PAIMI.

Also, there is no basis to state that there is “accrual” from the Fringe Benefits cost category and negotiated rates are precluded under the current legal regime PRPA. The direct effect of such action implicates a potentially egregious violation of Puerto Rico’s laws. Also, there is no arbitrary “accrual” because all the calculations are based on a methodology utilized within all the agencies of the government of Puerto Rico under Law 26 and Law 379, and Law 230.

PRPA cannot surpass the mandates of these laws and negotiate a “Fringe Benefit Rate” that can trump and lead to conflicts with the laws of Puerto Rico. Most importantly, PRPA is in compliance of PTO and fringe benefits as mandated under the Uniform Administrative Requirements of 45 CFR 75.431.

It is an unfair implication to state that PRPA utilizes unfair and inconsistent treatment of costs. These costs, in relationship to salaries and wages, do not differ significantly for different groups of employees because the Puerto Rico legal regime is specifically designed to avoid arbitrary groupings. What is more salient, is that PRPA’s groupings tend to relate to programming and that there is a clear distinction for those employees whose time is exclusively devoted to PAIMI.

- **If PRPAS chooses to pursue a Negotiated Indirect Cost Rate Agreement, then PRPAS must prepare their Indirect Cost Proposal (ICP), which can be based on a two-rate methodology (i.e., a fringe benefit rate and indirect cost rate) beginning with PRPAS' accounting period 7/1/2021 – 6/30/2022 (FY 2022) based on the new required methodology of reallocating all PTO and administrative costs to the fringe benefit and indirect cost pools, respectively.**

Currently, PRPA does not have an indirect cost proposal given that ACL precluded us from requesting one and recommended instead a cost allocation plan. Any new methodology of reallocating all PTO and administrative costs to the fringe benefit and indirect cost pools goes against the approved budgets. More importantly, it can create enormous risks in that PRPA is obligated to pay allowable fringe benefits mandated by Puerto Rico law. For instance, the below are *required by law*:

- *Driver's License* specifically refers to a unique type of “chauffeur employee insurance” that is a warranted fringe benefits definition pursuant to 45 CFR § 75.431. In Spanish, this insurance is known as “Seguro Choferil” and it is a mandatory insurance under Law 428 of 1950 (Law 428) requiring insurance for the benefit all employees whose duties include operating a vehicle.
- Christmas Bonuses are paid pursuant to the mandate of Law 148 of 1969 (Law 48).

Also, it is important to note that the P&A does not have a state budget allocated. At this time, PRPA expects the passing of legislation which will create the P&A office. This office will not have state funding and will only be fed by federal funds from the programs it administers.

Furthermore, 45 CFR 75 Subpart E § 431 (d), requires that:

“When the allocation method is used, separate allocations must be made to selective groupings of employees, unless the non-Federal entity demonstrates that costs in relationship to salaries and wages do not differ significantly for different groups of employees.”

In conclusion PRPA's capacity to allocate salaries, wages, and PTO is fettered by longstanding laws and regulations. Nowhere in the Uniform Administrative Requirements does it state that PRPA can overcome state law and negotiate rates. On the contrary, our position is that we are compliant with this respect and are warranted in leaving the budget as it was approved. Furthermore, to implement this budget revision would seriously cripple PRPA's ability to operate.

(3) Eleven (11) calls to action

1. Revised Chart of Account and Object Code listings to properly re-classify all grant expenses in accordance with the approved PAIMI budget.

The Treasury Department is the custodian of federal funds, and it has created PRIFAS to solely serve this purpose. PRIFAS is the nerve center of federal grants management and it is entrusted with designating object codes. The Grant/Project Management module integrated into the PRIFAS System allows allocations of a certain amount from the federal grant to carry out several projects. Also, each Project is distinguished within the module and defined as an activity that has its own identification and specific allocated amounts of the federal grant handled by the agency. We are including a copy of Circular Letter 1300-20-06²⁵ and a copy of the English translation of the approved Chart of Accounts²⁶. In addition, we are including a copy of email communication²⁷ showing the PRIFAS PAIMI grant balances with the requested re-classification in accordance with the included approved PAIMI budget²⁸ and budget narrative²⁹.

2. Revised timesheet template (if using an electronic system, electronic system's timesheet process/platform) separating direct hours and PTO, which includes (a) grant, project or cost center being worked on; (b) number of hours worked on each; (c) description of work performed; and (d) PTO hours. The timesheet must clearly demonstrate that direct hours charged to the federal awards are recorded separate from the PTO hours recorded as administrative overhead. Provide also a copy of an employee's actual timesheet demonstrating how direct hours and PTO were recorded. Provide confirmation on the type of timesheet system (electronic or manual) being used by employees to record their hours. Sample timesheets have been provided with the letter.

PRPA employees are now required to enter all hours worked into the DAD System to ensure appropriate recording of time as requested. There are no indirect costs whatsoever associated with PRPA because each resource allocated to these awards goes directly to serve the pre-determined needs and functions of the programs as directed under the approved budget. The FY 2022 budget, as all budgets in the past, show that PTO is paid to employees whose services are dedicated to serving solely the nine programs, including PAIMI.

To this effect, the PRPA has taken meaningful steps to ensure that charges to federal awards for salaries and fringe benefits are based on records that accurately reflect the work performed by the program's staff members.

²⁵ Refer to attachment 1

²⁶ Refer to attachment 2

²⁷ 27_PRPA_ReclassificationGrantExpenses_PRIFAS

²⁸ Refer attachment 4

²⁹ Refer attachment 3

To this end, PRPA has undertaken various tasks, including:

1. Four (4) training sessions on the functionalities of the Disability Advocacy Database (DAD) System.
 2. Review sessions will continue on November 26, December 2, and December 16 of 2021.
 3. Agency-wide issuance of a Circular Letter with official instructions regarding time entries in the DAD System³⁰
 4. Team meeting held on October 29, 2021, to discuss time entry responsibilities and importance of strict compliance.³¹
 5. Communication to staff indicating time allocation for federal programs assigned, according to the approved distribution for Fiscal Year 2021³². This communication was sent individually to each staff member on October 28, 2021. Subsequently, this information will be communicated to each staff member at the beginning of each fiscal year once the Executive Director certifies the Budget for that year. To this end, PRPA has developed an SOP for Budget Certification³³ with the purpose of guaranteeing that budget accounts are registered in PRIFAS system according to the approved budget each year and employees receive communication of the approved time allocations.
 6. The current Employee Timesheets from the DAD system reflect the requirement requested herein. Currently, these timesheets include a Fund category labeled *Fondo Programático Administrativo*, which is being revised to more accurately reflect the administrative tasks performed by the employee³⁴. Actual employee timesheets from July to December 2021 are available upon request.
 7. A SOP for Time and Effort Recording in the DAD System was developed and shared in the PRPA employee SharePoint.³⁵
- 3. Revised budget(s) for the PAIMI grant to remove PTO and all administrative/indirect costs charged directly to the grant as identified under IV. Commingling of Direct and Indirect Costs (Inconsistent Treatment of Costs) section above, that begins with PRPAS' accounting period 7/1/2021 (FY 2022). For options on how to recover these costs, please see CAP bullet sections above. Submit the revised budget(s) to OFAS for review. Once reviewed by OFAS, submit the revised budget(s) to the designated Grants Management Specialist (GMS) and Government Project Officer (GPO) for approval. Please copy OFAS on the request and GMS/GPO approval.**

The requirement to remove PTO in the revised budgets and demands of removal of the PTO/PTO "accrual" from the Fringe Benefits cost category, unless negotiated Fringe Benefit rate has been approved and can be applied as a direct allocation/direct charge to the grant. The direct effect of such action implicates an egregious violation of Puerto Rico's laws. Also,

³⁰ Refer to attachment 9

³¹ Refer to attachment 10

³² Refer to attachment 5

³³ Refer to attachment 12

³⁴ Refer to attachment 13

³⁵ Refer to attachment 14

there is no arbitrary “accrual” because all the calculations are based on a methodology utilized throughout all agencies of the government of Puerto Rico.

PRPA cannot surpass the mandates of these laws and negotiate a “Fringe Benefit Rate” that can trump and lead to conflicts with the laws of Puerto Rico. Most importantly, PRPA is in compliance of PTO and fringe benefits as mandated under the Uniform Administrative Requirements of 45 CFR 75.431.

It is an unfair implication to state that PRPA utilizes unfair and inconsistent treatment since costs in relationship to salaries and wages, do not differ significantly for different groups of employees because the Puerto Rico legal regime is specifically designed to avoid arbitrary groupings. What is more salient, is that PRPA’s groupings tend to relate to programming and that there is a clear distinction for those employees whose time is exclusively devoted to PAIMI.

Nowhere in the Uniform Administrative Requirements does it state that PRPA benefits meet the definition of indirect costs. On the contrary, our position is that we are compliant with this respect and are warranted in leaving the approved budget *as is*.

- 4. Revised personnel policies and procedures (P&P) for recording and charging direct hours to federal awards in line with CAP item #2 above. Specifically, PRPAS’ updated P&P must clearly specify how employees, regardless of level of effort, engaged in work on federal awards, will (a) record their hours based on actual hours performed to the correct funding code, (b) record PTO as a separate admin cost pool/code, (c) prepare and maintain timesheets at all times for each pay period for all federal awards; and (d) sign and obtain approval at the end of each pay period. The P&P must make reference to PRPAS’ preferred method of either using an electronic or manual system for recording hours.**

The PRPA has taken meaningful steps to ensure that charges to federal awards for salaries and fringe benefits are based on records that accurately reflect the work performed by the program’s staff members.

To this end, PRPA has undertaken various tasks, including:

1. Four (4) training sessions on the functionalities of the Disability Advocacy Database (DAD) System.
2. Review sessions will continue on November 26, December 2, and December 16 of 2021.
3. Agency-wide issuance of a Circular Letter with official instructions regarding time entries in the DAD System³⁶
4. Team meeting held on October 29, 2021, to discuss time entry responsibilities and importance of strict compliance.³⁷

³⁶ Refer to attachment 9

³⁷ Refer attachment 10

5. Communication to staff indicating time allocation for federal programs assigned, according to the approved distribution for Fiscal Year 2021³⁸. This communication was sent individually to each staff member on October 28, 2021. Subsequently, this information will be communicated to each staff member at the beginning of each fiscal year once the Executive Director certifies the Budget for that year. To this end, PRPA has developed an SOP for Budget Certification³⁹ with the purpose of guaranteeing that budget accounts are registered in PRIFAS system according to the approved budget each year and employees receive communication of the approved time allocations.
6. Employee Timesheets currently include a Fund category labeled *Fondo Programático Administrativo* which is being revised to more accurately reflect the administrative tasks performed by the employee⁴⁰.
7. A SOP for Time and Effort Recording in the DAD System was developed and shared in the PRPA employee SharePoint.⁴¹

In addition to the efforts to ensure employees adhere to the process of recording consumed hours on a daily basis, an SOP for effort reporting⁴² and the actions needed to validate timesheets, certify worked hours and time allocation, and prepare Adjustments and Corrections on a weekly basis. The SOP for time effort reporting apply to executive director, program coordinators, human resources and budget and finance divisions. This SOP was created to support the personnel effort reporting which is essential to ensure PRPA meets its fiduciary responsibilities to allocate times properly among their federal grants and ensure alignment with cost objective.

5. Supporting documentation (i.e. general ledger, payroll system reports, and updated policies and procedures) to demonstrate that PRPAS has established an accounting system capable of identifying all individual personnel charged to the SAMHSA grant award through its GL and/or through its payroll system;

The Treasury Department is the custodian of federal funds, and it has created PRIFAS to solely serve this purpose. PRIFAS is the nerve center of federal grants management, and it is entrusted with designating object codes. The Grant/Project Management module integrated into the PRIFAS System allows allocations of a certain amount from the federal grant to carry out several projects. Also, each Project is distinguished within the module and defined as an activity that has its own identification and specific allocated amounts of the federal grant

³⁸ Refer attachment 5

³⁹ Refer to attachment 12

⁴⁰ Refer to attachment 10

⁴¹ Refer to attachment 14

⁴² Refer to attachment 6

handled by the agency. We are including a copy of Circular Letter 1300-20-06⁴³ and a copy of the English translation of the approved Chart of Accounts⁴⁴ as well as the budget narratives.⁴⁵

Another significant measure to ensure correct allocation and time and effort reporting is the SOP for time effort reporting, applicable to the executive director, program coordinators, as well as the divisions of human resources and budget and finance. The purpose of this SOP is to create building blocks to support personnel effort reporting, which is essential to ensure that PRPA meets its fiduciary responsibilities to:

- allocate times properly among their federal grants,
- ensure alignment with cost objective, and
- complement the SOP for time and effort reporting, which was developed as a guideline to ensure that charges to federal awards for salaries and fringe benefits are based on records that accurately reflect the work performed by the program's staff members. The latter apply to all staff members of the P&A programs.

6. Adjusting Journal Entries removing PTO and administrative/indirect costs charged directly to the PAIMI grant that begins with PRPAS' accounting period 7/1/2021 (FY 2022) through current date;

To remove PTO in the revised budgets is unwarranted. Demands of removal of the PTO/PTO "accrual" from the Fringe Benefits cost category, unless negotiated Fringe Benefit rate has been approved and can be applied as a direct allocation/direct charge to the grant, is precluded. The direct effect of such action implicates an egregious violation of Puerto Rico's laws. Also, there is no arbitrary "accrual" because all the calculations are based on a methodology utilized throughout all agencies of the government of Puerto Rico.

PRPA cannot surpass the mandates of these laws and negotiate a "Fringe Benefit Rate" that can trump and lead to conflicts with the laws of Puerto Rico. Most importantly, PRPA is in compliance of PTO and fringe benefits as mandated under the Uniform Administrative Requirements of 45 CFR 75.431.

It is an unfair implication to state that PRPA utilizes unfair and inconsistent treatment since costs in relationship to salaries and wages, do not differ significantly for different groups of employees because the Puerto Rico legal regime is specifically designed to avoid arbitrary groupings. What is more salient, is that PRPA's groupings tend to relate to programming and that there is a clear distinction for those employees whose time is exclusively devoted to PAIMI.

Nowhere in the Uniform Administrative Requirements does it state that PRPA benefits meet the definition of indirect costs or that PTO can't be charged directly. On the contrary, our

⁴³ Refer to attachment 1

⁴⁴ Refer to attachment 2

⁴⁵ Refer to attachment 3

position is that we are compliant with this respect and are warranted in leaving the budget as is.

7. Adjusting Journal Entries to properly reconcile entries made for personnel expenses, as identified under I. Commingling of Budget Categories section above, that begins with PRPAS' accounting period 7/1/2021 (FY 2022) through current date. Provide a detailed explanation as to why these entries were not reconciled on a timely manner.

We finalize the analyzed of actual hours incurred by employees by program⁴⁶. Today the PRPA started working with the Journal Entries. By nature of the accounting system, PRPA must wait for the system to reflect these adjustments. We should be supplying these documents on Tuesday, November 16, 2021, once the system is able to update balances. Note that the accounting is embedded in PRIFA's system.

These entries were not reconciled on a timely manner is due PRPA's accounting staff shortage since there are currently three open accountant positions and one of accountant was deceased in August 2021. Corrections are now in place and this first adjustment will give us an opportunity to determine if the corrections made will give us the data as requested.

8. Adjusting Journal Entries reclassifying all miscellaneous expenses to its proper grant expense category and remove any costs not approved in the PAIMI grant award, as identified under I. Commingling of Budget Categories section above, that begins with PRPAS' accounting period 7/1/2021 (FY 2022) through current date.

All adjustments have been made and budget reflects proper classification of accounts. There are no miscellaneous expenses and balances in PRIFAS reflect the costs approved in the PAIMI grant award. Efforts to designate proper classification are ongoing. Objects according to approved PAIMI budget⁴⁷ and budget narrative⁴⁸ are provided herein.

9. Adjusted Detailed General Ledgers for the PAIMI grant reflecting the implementation of CAP items # 6 through #8 above. The GL's period must be from the beginning of the grant period(s) referenced above through current date. Please highlight all adjustments made in the GLs as a result of CAP items #6 through #8;

⁴⁶ 46_TimeSheetAnalysis_For_adjustments

⁴⁷ Refer to attachment 3

⁴⁸ Refer to attachment 4

The process of adjusting Journal Entries was completed today and we are waiting for the system to reflect these adjustments. We should be supplying these documents also on Tuesday, November 16, 2021.

- 10. If applicable, drafted Indirect Cost Proposal (ICP) beginning with PRPAS' accounting period 7/1/2021 (FY 2022) based on the new required methodology of reallocating all PTO and administrative costs to the fringe benefit and indirect cost pools, respectively. See CAP's fifth bullet for more information. OFAS will review the drafted ICP with the understanding that PRPAS will use this proposal in applying for a negotiated indirect cost rate agreement with its cognizant agency, when the period for submission becomes available; and**

This does not apply. Please refer to explanations for items I through III above.

- 11. Confirm in writing that CAP items #1-10 have been fully implemented. For CAP item #10 (if applicable), also provide a statement that PRPAS agrees to use the drafted ICP submitted to OFAS for applying for a negotiated indirect cost rate agreement with its cognizant agency, when the period for submission becomes available.**

PRPA has duly implemented every requested action within our organizational and legal capacity. PRPA also took extra steps to ensure that appropriate and effective measures were taken to prevent recurrence of the noncompliance. In addition to the measures taken, including training provided to staff to improve abilities to consistently meet regulatory requirements, and other corrective measures. Combined with our efforts, we are also working under the oversight AFAAF who is committed to oversight all operations of the PRPA with a dedicated staff member who will work closely with staff of the PRPA and the Treasury Department to ensure continuance of the standardized processes.

We believe that this Response and supporting documents should put to rest the concern of continued and pervasive noncompliance. Should you need any additional information, we will be glad to provide it.

Kind regards,

//S//

Loida Oliveras

Directora Ejecutiva Interina

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