



Kevane

**Grant Thornton**

Financial Statement and Report of  
Independent Certified Public Accountants

**Puerto Rico Department of Education**  
(An Executive Agency of the Commonwealth of Puerto Rico)

Single Audit Package

June 30, 2018

**Puerto Rico Department of Education**  
(An Executive Agency of the Commonwealth of Puerto Rico)

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**Report of Independent Certified Public Accountants**

Honorable Eligio Hernández  
Secretary  
Department of Education of the  
Commonwealth of Puerto Rico  
San Juan, Puerto Rico

**Report on the Financial Statement**

We have audited the accompanying statement of cash receipts and cash disbursements ("the financial statement") of the **Puerto Rico Department of Education** ("PRDE") ("the Entity"), an executive agency of the Commonwealth of Puerto Rico, for the year ended June 30, 2018, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 2; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

**Basis for Qualified Opinion**

The Entity made disbursements to the retirement systems amounting \$15,581,865. We were unable to obtain sufficient appropriate audit evidence about the retirement systems payments.

**Qualified Opinion**

In our opinion, except for the possible effect of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statement referred to above presents fairly, in all material respects, the statement of cash receipts and cash disbursements of the Puerto Rico Department of Education for the year ended June 30, 2018, in accordance with the cash basis of accounting described in Note 2.

**Basis of Accounting**

We draw attention to Note 2 of the financial statement, which describes the basis of accounting. This financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

**Emphasis of Matter Regarding Going Concern**

The accompanying financial statement has been prepared assuming that PRDE will continue as a going concern. As discussed in Note 3 to the financial statement, the Commonwealth of Puerto Rico (Commonwealth), including its executive agencies, faces significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they become due. Additionally, the Commonwealth is currently restructuring its obligations in an orderly fashion under Title III of the US Congress Puerto Rico Oversight, Management and Economic Stability Act (PROMESA). These conditions raise substantial doubt about its ability to continue as a going concern. The financial statement does not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

**Other Emphasis of Matter**

As discussed in Note 1, the financial statement of PRDE, is intended to present the cash receipts and cash disbursements of the Commonwealth that is attributable to the transactions of PRDE. They do not purport to, and do not, present fairly the cash receipts and cash disbursements of the Commonwealth as of June 30, 2018. Our opinion is not modified with respect to this matter.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 15 be presented to supplement the financial statement. Such information, although not a part of the financial statement, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the financial statement, and other knowledge we obtained during our audit of the financial statement. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



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*Other Information*

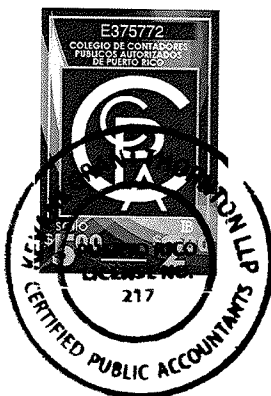
Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statement as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2019, on our consideration of the Entity's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Entity's internal control over financial reporting and compliance.

San Juan, Puerto Rico,  
September 30, 2019.

*Kevane Grant Thornton LLP*



# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Management's Discussion and Analysis June 30, 2018**

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### **Introduction**

This section of the financial statement is classified by the Governmental Accounting Standard Board (GASB) as Required Supplementary Information (RSI). It is intended to provide an objective and easy readable analysis of the government's financial activities. Along with the Statement of Cash Receipts and Disbursements, the management's discussion and analysis should provide the users with the most relevant information regarding the financial condition of the Puerto Rico Department of Education ("PRDE") as of June 30, 2018 including a general comparison to the prior fiscal year. The management of the PRDE provides this annual financial report and the management's discussion and analysis of PRDE's financial performance during the fiscal year ended June 30, 2018. This report includes the cash received and cash disbursed as a result of the operating activities of PRDE including funds appropriated by the Commonwealth of Puerto Rico (the Commonwealth) and federal financial assistance programs granted by the U.S. Governmental Agencies (USGA). PRDE is an executive agency part of the primary government of the Commonwealth.

### **Overview of the Financial Statement**

The annual report includes the independent auditors' report, the statement of cash receipts and cash disbursements, the schedule of expenditures of federal awards and the management's discussion and analysis. This report also includes notes that explain in detail the information contained in the statement of cash receipts and cash disbursements, and schedule of expenditures of federal awards. The discussion will focus on major components of the statement of cash receipts and cash disbursements along with any facts, conditions or decisions that are expected to have a significant impact on the activities of PRDE.

### **Liquidity Risk and Going Concern**

The Commonwealth of Puerto Rico ("Commonwealth") including its executives' agencies faces significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they come due. The risks and uncertainties facing the Commonwealth, together with other factors, have led the Commonwealth's management to conclude that there is substantial doubt as to the ability of the primary government, to continue as a going concern. One of the aspects of the Commonwealth's operations contributing to the liquidity constraints relates to the Commonwealth's education costs. During the year ended June 30, 2018, Commonwealth appropriations amounted to \$1.59 billion, which represents a 67%, approximately, of PRDE's total cash receipts. The budget appropriation for the Commonwealth's Department of Education has historically represented a significant portion of the total Commonwealth General Fund budget. In addition, certain expenditures, such as those required to fund the Department of Education's special education program, can increase unexpectedly as a result of court orders issued in pending lawsuits by special education students. Another important factor is that PRDE has experienced a substantial reduction in student enrollment, which is expected to continue for the foreseeable future. Certain federally funded programs are funded on a per capita basis and a reduction in the number of students due to demographic trends or changes in program parameters could result in a lower amount of federal funds.

GASB Statement No. 56 requires management to evaluate whether there is a substantial doubt about a government's ability to continue as going concern for twelve months beyond the financial statement date. Information that may indicate substantial doubt as to government's ability to continue as a going concern includes a government's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring debt, submission to the oversight of a separate financial assistance authority or financial review board, or similar actions.

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Management's Discussion and Analysis June 30, 2018**

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The Commonwealth currently faces a severe fiscal and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. The Commonwealth's largest revenue streams are especially vulnerable during times of major economic downturns and have been affected by these same factors. Further stressing the Commonwealth's liquidity are large health care, pension and debt service costs. As the Commonwealth's tax base has shrunk and its revenues been affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services. The Commonwealth's very high level of debt and pension liabilities and the resulting required allocation of revenues to service debt and pension obligations contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt. More recently, the Commonwealth's continued economic recession, high level of debt and pension obligations, and structural budget deficits, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. As a result, the Commonwealth relied more heavily on short-term financings and interim loans from the Government Development Bank for Puerto Rico ("GDB") and other instrumentalities of the Commonwealth, which reliance has constrained the liquidity of the Commonwealth in general and GDB in particular, and increased near-term refinancing risk. These factors have also resulted in delays in the repayment by the Commonwealth and its instrumentalities of outstanding GDB lines of credit, which delays limited GDB's ability to continue providing liquidity to the Commonwealth and its eventual collapse.

In April 2016, the Governor of Puerto Rico signed into law Act 21-2016, known as the "Puerto Rico Emergency Moratorium and Financial Rehabilitation Act", as amended pursuant to Act 40-2016, (Act 21). Act 21 allows the Governor to prioritize essential government services over the financial obligations of the Commonwealth and its instrumentalities by imposing a moratorium on debt service payments, including debt service on general obligation bonds, and staying related creditor remedies for a temporary period.

### *PROMESA Act*

Although neither the Commonwealth nor its component units are eligible to seek relief under Chapter 9 of the United States Bankruptcy Code, on June 30, 2016, the U.S. President signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which grants the Commonwealth and its component units' access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. In broad strokes, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a control board, relief from creditor lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt. PROMESA creates a federally appointed oversight board that has plenary authority over Puerto Rico's finances. The board's primary function is to provide fiscal oversight through the development and approval of fiscal plans and budgets, and to enforce compliance with those plans and budgets through broad-based powers such as reducing non-debt expenditures and instituting certain hiring freezes. The board also has oversight over legislative processes because PROMESA requires the board to review new laws and deny their enforcement if they are inconsistent with the approved fiscal plans and budgets. The board also has authority to review contracts to ensure compliance with the fiscal plan, and to prevent the execution or enforcement of a contract, rule, executive order or regulation to the extent that it is inconsistent with the approved fiscal plan.

The enactment of PROMESA also operates as a broad-based stay on litigation, applicable to all entities, with respect to claims related Puerto Rico's financial debt, as well as on enforcement of provisions in contracts that allow for termination and the exercise of remedies based on non-payment of financial obligations, among other conditions.

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Management's Discussion and Analysis June 30, 2018**

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The Commonwealth expects that its ability to finance future budget deficits will be severely limited even if it achieves a comprehensive debt restructuring, and, therefore, that it will be required to, among other measures, reduce the amount of resources that fund important governmental programs and services in order to balance its budget. There is no assurance, however, that budgetary balance will be achieved and, if achieved, that such budgetary balance will be based on recurring revenues or expense reductions or that the revenue or expense measures undertaken to balance the budget will be sustainable on a long-term basis. Moreover, the measures to achieve budgetary balance through austerity may adversely affect the performance of the Commonwealth's economy which, in turn, may adversely affect governmental revenues. While recent studies and the proposed comprehensive debt restructuring seeks to address these recurring budgetary imbalances and to make debt service payments sustainable, it is at present uncertain that such a restructuring will be consummated or that it will achieve the goals of recurring budgetary balance and debt sustainability. Furthermore, the restructuring proposals presented by the Commonwealth depend on one hundred percent participation, which can only be achieved practically through a mechanism to bind holdout creditors. While PROMESA provides the Commonwealth tools to bind such holdouts and adjust its debts in an orderly manner, PROMESA gives the oversight board total control over such adjustment process and includes certain provisions designed to protect creditor interests, which are untested. There is thus no assurance that the federally appointed oversight board of PROMESA will be successful in achieving budgetary and fiscal balance through a debt restructuring or otherwise.

Management expects that the Commonwealth will not be able to honor all of its obligations as they come due while at the same time providing essential government services. There are certain Commonwealth component units that offer basic and essential services to the population of Puerto Rico and to the extent that any of these component units are unable to continue to provide such essential services, the Commonwealth may be required to divert Commonwealth resources to ensure that such services continue to be provided. Such action would exacerbate the Commonwealth's insufficiency of revenue to honor its obligations as they become due.

### *Commonwealth Fiscal Plan*

Pursuant to PROMESA and the requirements imposed by the Oversight Board, on October 23, 2018, the Oversight Board certified its own fiscal plan for the Commonwealth (the Board Fiscal Plan). The Board Fiscal Plan commits to fiscal responsibility and implements specific revenue enhancements and targeted expenditure reductions to return Puerto Rico to fiscal stability and economic growth. On January 18, 2019, the Oversight Board requested the Governor to submit a new Commonwealth fiscal plan to replace the Board Fiscal Plan. On March 10, 2019, the Governor submitted a new proposed Commonwealth fiscal plan which was certified by the Oversight Board on May 9, 2019.

Given the fact that budget appropriation for the Commonwealth's Department of Education has historically represented a significant portion of the total Commonwealth General Fund budget, as Commonwealth's liquidity continues to be challenged and their appropriations and financing ability become more uncertain, the PRDE's financial condition and liquidity is similarly affected.

### *Retirement Systems*

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the Primary Government's agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, the new PayGo mechanism for all the Commonwealth's Retirements Systems. With that start of the fiscal year 2018, employer's contributions, contributions ordered by special laws and the Additional Uniform Contribution were all eliminated and replaced by a monthly PayGo charge that will be collected from the aforementioned government entities to pay retirees. The Retirement Systems will determine and administer the payment amount per retiree that will be charged to each agency, public corporation and a municipality. The Pay Go charge must be submitted to the Treasury Department before the 15<sup>th</sup> day of each month along with the individual contributions withheld from active employees. As liquid retirement funds become depleted, the PayGo charge is expected to increase.



# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Management's Discussion and Analysis June 30, 2018**

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In addition to the establishment of the PayGo mechanism, on August 23, 2017, the Governor signed into law Act No. 106 of 2017 the Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants, reformed the Commonwealth's pensions by replacing the governing boards of the Retirement System with a single Retirement Board of the Commonwealth of Puerto Rico (Retirement Board) and establish a separate "Account for the Payment of Accrued Pensions" to implement a PayGo method for the Retirement Systems. Act. No. 106 of 2017 created the legal framework so that the Commonwealth can guarantee payments to pensioners through the PayGo system.

### *Hurricanes Irma and María*

Puerto Rico was impacted by two consecutive hurricanes during September 2017. These atmospheric events carried to an Island-wide crisis that interrupted the provision of all services, not the least of which were the educational ones. The aftermath of Hurricanes Irma and María, reflected the massive severity and extent of the damages caused. The Puerto Rico Department of Education (PRDE) was unable to restart its regular activities during some period of time, because it contributed to provide emergency relief services, including providing food and shelter to communities across the island. For months, some schools remained as shelters for people that lived in flooded areas, among other difficulties. Due to the devastation caused, the Commonwealth's Central Government and some of its instrumentalities faced severe cash shortfalls from lower revenues, higher costs and delayed or reduced cost-saving measures that had been required by the Puerto Rico's Fiscal Plan previously approved.

Puerto Rico's long economic crisis and the migration of families with children to the U.S. mainland after Hurricanes' Irma and María has resulted in a sharp decline in pre-K-12 student enrollment. According to Puerto Rico's Department of Education, approximately one-year post-Hurricane María (October 2018), only 307,282 students enrolled in public schools. On the onset of the Island's economic crisis, student enrollment was at its peak with 548,089 students in 2006. The impact of both storms, especially Hurricane María, induced a massive exodus that included students as well.

In 2018, Puerto Rico's public schools started off with approximately 40,000 fewer students between 2017 (pre-Hurricanes' Irma and María) and 2018 (post-Hurricanes' Irma and María). This significant drop in student enrollment is largely attributed to students relocating to stateside schools, as a result of infrastructure damages and lack of electricity and water in their school buildings, as well as the loss of their homes or severe home damages.

All in all, one-year since Hurricanes Irma and María swept through Puerto Rico, the post-hurricane's exodus continues to change the prevailing narrative of Puerto Rican migration. To PRDE, the migration exodus reinforces a pattern of depopulation that has induced austerity and the decline in education services, teacher and non-teaching employments, closing of schools, increased poverty among the most disadvantaged such as families with children, among other unfolding consequences of sudden population losses. This recent exodus represents one of the most significant historical movements of Puerto Ricans to the U.S. in terms of both volume and duration.

Due to this decline in student population, along with the high cost of maintaining school infrastructure, led PRDE to close 255 public schools throughout the Island, leaving only 857 schools open in the 2018-2019 academic year.

### *General Budget approved for Fiscal Year 2017- 2018*

The Legislature approved on July 26, 2017 by Joint Resolution No. 9 the allocation of \$1,475,721,000, charged to the General Fund of the State Treasury, for ordinary operating expenses of PRDE during the fiscal year ending June 30, 2018, among other appropriations. This allocation resulted in a decrease of \$164.4 million or 10% when compared to the general budget approved in FY 2016-2017, as a result of the cumulative economic contraction of 14.6% in the Gross State Product (real PEB) with a prediction of an additional contraction of 3% for the next two (2) years.

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Management's Discussion and Analysis June 30, 2018**

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Decrease is mainly due to the structural deficit the Government of Puerto Rico has operated and financed by issuing bonds and loans to the GDB. For more than a year, the Government of Puerto Rico lacked liquidity to meet its payments, money from pensioners and intragovernmental loans were used to replace sources of liquidity and spent more money than available funds. In addition, the GDB breached its obligations to bondholders since May 1, 2016 and no longer fulfilled its role of providing liquidity, nor did it have access to the market due to the credibility lost from the Government of Puerto Rico.

On March 23, 2018, GDB ceased its operations and determined to wind down in an orderly manner under Title VI of PROMESA. Under the Moratorium Act (as amended by Act No. 2 of 2017), the Puerto Rico Fiscal Authority and Financial Advisory Authority ("FAFAA") was created, as an independent public corporation to assume GDB's role as fiscal agent, financial advisor and reporting agent for the Commonwealth, its component units, and municipalities. FAFAA has also been assigned the tasks of overseeing matters related to the restructuring or adjustment of the Commonwealth's financial liabilities, coordinating liability management or other transactions with respect to such obligations, and ensuring compliance with fiscal plans and budgets approved by the Oversight Board pursuant to PROMESA.

### **PUERTO RICO EDUCATION REFORM LAW**

On March 29, 2018, the Commonwealth enacted Act No. 85 of 2018, known as Puerto Rico Education Reform Act, which consist of several measures to be taken, including among them:

- New system focused mainly in the students
- Establishes a budget based on the average cost per student and the needs of each student. The legislation also guarantees that seventy percent of the budget assigned for education budget will be allocated to local schools
- Establishes the Charter Public Schools, in which private entities such as nonprofit organizations, corporations or municipalities take over the administration of the schools
- Creates the free selection school and educational voucher program. Under the new education law, the voucher for private school may not exceed seventy percent of the amount allocated by the PRDE per student up prior to hurricanes Irma and María. The students must first be enrolled in public or charter schools for two years prior to qualifying for a private school voucher
- Creation of the Educational Regional Offices; decentralize the administration and services in order to have a more efficient structure that responds to the needs of the school community; reduce costs; establish a digital transparency policy in educational processes; and delegate greater responsibilities to regional Superintendents and Directors. With the regionalization, each region will operate as Local Educational Authority (LEA)
- Reduces the number of public schools from 1,131 to 856 allocating more funds for each student in the system. This number increased to 857, after the approval of the first Charter School in Puerto Rico in the 2018-2019 fiscal year.

**Puerto Rico Department of Education**  
**(An Executive Agency of the Commonwealth of Puerto Rico)**

**Management's Discussion and Analysis**  
**June 30, 2018**

**Financial Analysis of the Statement of Cash Receipts and Cash Disbursements**

**Total Governmental Activities**

The Statement of Cash Receipts and Cash Disbursements presents within its cash receipts the funds appropriated by the Commonwealth and the grants received from USGA. It also presents its cash disbursements by program/function. The difference between the cash receipts and disbursements is presented as an excess or deficiency for the year. All this combined provides the general financial information of PRDE; however, one will need to consider other nonfinancial factors within any comprehensive analysis.

**Cash Receipts and Cash Disbursements - Total Governmental Activities**

**Condensed Financial Information:**

	Year Ended June 30,		Change	
	2018	2017	In dollars	Percentage
<b>Cash Receipts:</b>				
Commonwealth appropriations	\$ 1,594,637,586	\$ 1,883,849,502	\$ (289,211,916)	-15.4%
Intergovernmental – federal government	777,110,479	925,441,117	(148,330,638)	-16.0%
Total cash receipts	<u>2,371,748,065</u>	<u>2,809,290,619</u>	<u>(437,542,554)</u>	-15.6%
<b>Cash Disbursements:</b>				
Current:				
General government	76,366,134	22,432,801	53,933,333	240.4%
Vocational and Technical Education	67,273,640	77,196,735	(9,923,095)	-12.9%
Community Schools	1,290,491,928	1,532,176,926	(241,684,998)	-15.8%
Integrated Educative Services for the Disabled	383,458,265	443,943,410	(60,485,145)	-13.6%
Food Services for Students	244,173,529	283,098,414	(38,924,885)	-13.7%
Schools' Quality of Life and Drug Free	11,025,736	7,323,421	3,702,315	50.6%
Integrated Services to Communities	-	(9,909)	9,909	-100.0%
Adult Education	8,797,633	15,047,795	(6,250,162)	-41.5%
Technological Institutes	15,511,261	17,150,523	(1,639,262)	-9.6%
Auxiliary Services and Technical Assistance	34,979,154	48,919,143	(13,939,989)	-28.5%
Institute for Administrative Training and Counseling to Schools	16,968	35,494	(18,526)	-52.2%
Public Schools Maintenance	20,599,590	13,184,752	7,414,838	56.2%
Printing Services	605,309	750,431	(145,122)	-19.3%
Indirect Costs	30,514,674	17,461,890	13,052,784	74.8%
Joint Resolutions	51,744,003	114,100,751	(62,356,748)	-54.7%
Special Accounts	88,163,899	181,034,282	(92,870,383)	-51.3%
Total cash disbursements	<u>2,323,721,723</u>	<u>2,773,846,859</u>	<u>(450,125,136)</u>	-16.2%
Excess	<u>\$ 48,026,342</u>	<u>\$ 35,443,760</u>	<u>\$ 12,582,582</u>	35.5%

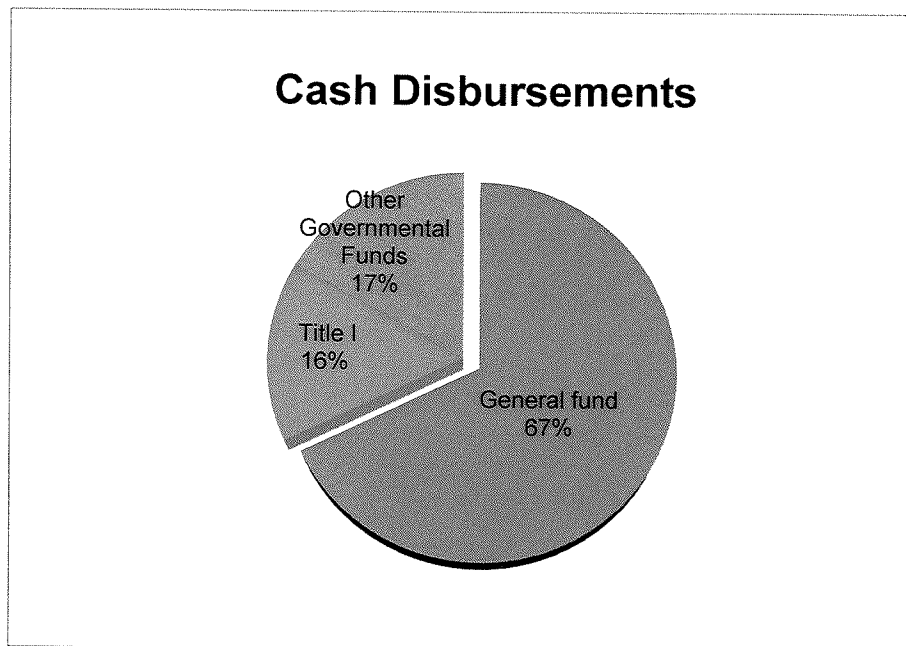
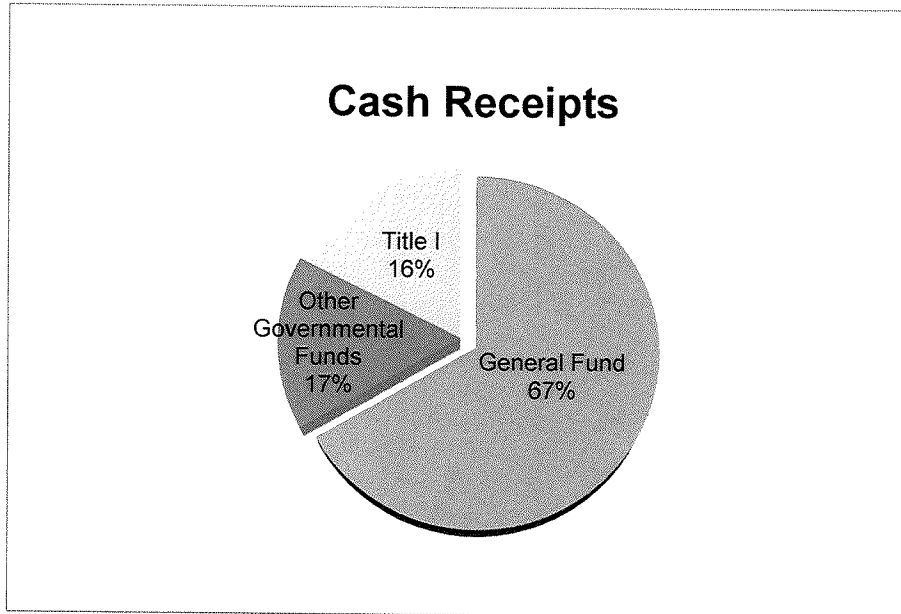
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**Puerto Rico Department of Education  
(An Executive Agency of the Commonwealth of Puerto Rico)**

**Management's Discussion and Analysis  
June 30, 2018**

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The total cash receipts and cash disbursements of the Governmental Activities include the individual activities of the Commonwealth Appropriations (General Fund) and the Federal Government Grants (Title- I and Other Governmental Funds). The distribution of the cash receipts and cash disbursements per each individual activity is presented in the following charts:



# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Management's Discussion and Analysis June 30, 2018**

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For the year ended June 30, 2018, PRDE's Statement of Cash Receipts and Cash Disbursements reflects an excess of receipts over disbursements of \$48 million. The main reason for the overall excess of cash receipts over cash disbursements is the recovery of funds resulting from prior years "deficiencies" of cash disbursements over cash receipts due to the fact that PRDE presents its financial statements using the cash-basis of accounting and as a result, it is limited to only reporting cash receipts and cash disbursements when the transactions meet the timing requirement. Due to the participation of PRDE in the pooled cash arrangement, cash receipts from Commonwealth appropriations are considered received when the related disbursement is made. Cash receipts related to indirect cost and special accounts, are recognized when cash is received. In addition excess of cash receipts and cash disbursements is due to certain disbursements not made during 2018 fiscal year related to the new pay mechanism implemented by the PRTD and disbursements not made during the period when schools were closed after passing of hurricanes Irma and Maria. The cash disbursements variations (under or over 10%) for the year ended June 30, 2018 when compared to the same period in 2017 are described below:

**General Government** increased by approximately \$53.9 million or 240% when compared to fiscal year 2017 mainly due to an increase in the disbursement of \$31.5 million to the Puerto Rico Infrastructure Financing Authority (AFI, per its acronym in Spanish) and the Office for the Improvement of Public Schools (OMEP, per its acronym in Spanish) for the school's renovation project, known as "*Renueva tu Escuela*". Other increases were related to the \$16.8 million to OMEP for additional school improvements and, an increase of approximately \$5.4 million for related, supplementary and support services for special education students who were entitled to the service, but the Special Education Program was financially unable to provide at the time student eligibility was determined.

**Vocational and Technical Education** decreased by approximately \$9.9 million or 12.9% when compared to fiscal year 2017 mainly due to a decrease in the disbursement of \$6.1 million related to the new PayGo mechanism implemented by the Puerto Rico Treasury Department, where all employer's contributions, contributions ordered by special laws and the Additional Uniform Contribution were all eliminated and replaced by a monthly "PayGo" charge which is collected from the primary government entities to pay retirees. Other decreases were related to \$2.7 million of personnel not hired due to the passing of hurricanes Irma and Maria. Also, a decrease in payroll and fringe benefits expenses of \$1.3 million due to employees that retired during FY2017 and their corresponding sick/vacation balances were disbursed within that same period.

**Community Schools** decreased by approximately \$241.7 million or 15.8% when compared to fiscal year 2017 mainly due to a decrease in the percentage that PRDE must apply to meet Title I, Part A School Improvement requirement. According to the Elementary and Secondary Education Act (ESEA) as amended by the Every Student Succeeds Act (ESSA) of 2015, states must allocate 7%, instead of 20% in order to attend schools in improvement, resulting in a decrease of \$67 million in disbursements related to this requirement. Also, a decrease related to payroll and fringe benefits expenses of \$36 million of employees that retired during FY2017 and their corresponding sick/vacation balances were disbursed within that same period. Other decrease of \$46 million was related to transitory teachers not hired until January 2018, due to the passing of hurricanes Irma and Maria and that schools had to be closed. In addition, a decrease in the disbursement of \$96 million related to the new PayGo mechanism implemented by the Puerto Rico Treasury Department, where all employer's contributions, contributions ordered by special laws and the Additional Uniform Contribution were all eliminated and replaced by a monthly "PayGo" charge that will be collected from the primary government entities to pay retirees.

**Integrated Educative Services for the Disabled** decreased by approximately \$60.5 million or 13.6% when compared to fiscal year 2017 mainly due to a decrease in the disbursement of \$24 million related to the new PayGo mechanism implemented by the Puerto Rico Treasury Department, where all employer's contributions, contributions ordered by special laws and the Additional Uniform Contribution were all eliminated and replaced by a monthly "PayGo" charge that will be collected from the primary government entities to pay retirees. Other decrease of \$17.2 million was related

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Management's Discussion and Analysis June 30, 2018**

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to transitory teachers not hired until January 2018, due to the passing of hurricanes Irma and Maria and schools had to be closed. In addition, a decrease of \$13 million related to a transportation interagency agreement with the Office of the Commissioner of Municipal Affairs (OCAM, per its acronym in Spanish), that came to an end in FY2017. In addition, a decrease in disbursements of \$8.9 million related to transportation services not provided due to the passing of hurricanes Irma and Maria while schools were closed.

**Food Services for Students** decreased by approximately \$38.9 million or 13.7% when compared to fiscal year 2017. This decrease was mainly due to the food services for students that were not provided during the period schools were closed after the passing of hurricanes Irma and Maria. Also, PRDE experienced a decrease of student enrollment once schools started to reopen in January 2018, resulting in a reduction of the amount of food services that were provided to students during FY2018.

**Schools' Quality of Life and Drug Free** increased by approximately \$3.7 million or 50.6% when compared to fiscal year 2017 mainly due to funds assignment from the Puerto Rico Office of Management and Budget of approximately \$5.1 million that were disbursed to "Proyecto C.A.S.A.S.", that were assigned through a joint resolution during FY2017. This increase was offset by a decrease of \$760 thousand, due to an organizational restructuring that moved the offices and district dependency to the Educational Regional Offices (OREs, per its acronym in Spanish); and by a decrease in the disbursement of \$386 thousand related to the new PayGo mechanism implemented by the Puerto Rico Treasury Department, where all employer's contributions, contributions ordered by special laws and the Additional Uniform Contribution were all eliminated and replaced by a monthly "PayGo" charge that will be collected from the primary government entities to pay retirees.

**Integrated Services to Communities** increase by approximately \$10 thousand, or 100% when compared to fiscal year 2017, mainly due to adjustments related to the closure of the program.

**Adult Education** decreased by approximately \$6.3 million or 41.5% when compared to fiscal year 2017, mainly due to a decrease of approximately \$5 million related to basic and secondary adult education services not provided during the period when schools and adult education centers were closed due to the passing of hurricanes Irma and Maria. In addition, this decrease had the effect of the hold back the federal government made to the Adult Education FY2017 grant. PRDE received half of the grant award due to its noncompliance with the Maintenance of Effort (MOE) requirement in a previous fiscal year. On April 2018, the federal government released the amount of the grant that was held back, after granting PRDE a waiver for the MOE requirement. Another decrease in the disbursement of approximately \$807 thousand, was related to the state library services that PRDE was not able to provide until schools and adult education center reopened late in 2017 and January 2018. Also, a decrease in the disbursement of \$223 thousand related to the new PayGo mechanism implemented by the Puerto Rico Treasury Department, where all employer's contributions, contributions ordered by special laws and the Additional Uniform Contribution were all eliminated and replaced by a monthly "PayGo" charge that will be collected from the primary government entities to pay retirees. Also, a decrease in payroll and fringe benefits expenses of \$112 thousand of employees that retired during FY2017 and their corresponding sick/vacation balances were disbursed within that period.

**Auxiliary Services and Technical Assistance** decreased by approximately \$13.9 million or 28.5% when compared to fiscal year 2017 mainly due to a decrease in fringe benefits expenses of \$6.9 million, as a result that disbursement occurred at the beginning of FY2019, not in FY2018. Also, a decrease in the disbursement of \$2.4 million related to the new PayGo mechanism implemented by the Puerto Rico Treasury Department, where all employer's contributions, contributions ordered by special laws and the Additional Uniform Contribution were all eliminated and replaced by a monthly "PayGo" charge that will be collected from the primary government entities to pay retirees. Other decreases were related to a reduction in payroll and fringe benefits expenses of \$1.6 million, as a result of employees that retired during FY2017 and their corresponding sick/vacation balances were disbursed within that period; not in FY2018.

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Management's Discussion and Analysis June 30, 2018**

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**Institute for Administrative Training and Counseling to Schools** decreased by approximately \$18.5 thousand or 52.2% when compared to fiscal year 2017 mainly due to a decrease in payroll and fringe benefits expenses that is related to the closure of the program. PRDE initiated personnel transfer to other programs in FY 2018.

**Public Schools Maintenance** increased by approximately \$7.4 million or 56.2% when compared to fiscal year 2017 mainly due to \$7.2 million of services that were covered with other funds during fiscal year 2017.

**Printing Services** decreased by approximately \$145 thousand or 19.3% when compared to fiscal year 2017 mainly due to a decrease in the disbursement of \$77 thousand related to the new PayGo mechanism implemented by the Puerto Rico Treasury Department, where all employer's contributions, contributions ordered by special laws and the Additional Uniform Contribution were all eliminated and replaced by a monthly "PayGo" charge that will be collected from the primary government entities to pay retirees. Also, a decrease in payroll and fringe benefits expenses of \$58 thousand of employees that retired during FY2017 and their corresponding sick/vacation balances were disbursed within that period.

**Indirect Cost** increased by approximately \$13 million or 74.8% when compared to fiscal year 2017 mainly due to an increase of approximately \$7.7 million for information systems and technological support services; approximately \$7.7 million for professional services contracts directly appointed to the Office of the Secretary and to the Auxiliary Services and Technical Assistance Program to work with the development and implementation of the online student enrollment system, school consolidation analysis, regional organizational restructuring, among other projects; and, approximately \$4.6 million for telephone and internet services that were paid with other funds in FY 2017. This increase was offset by a reduction of approximately \$5 million for conservation and repair of office equipment services that were paid with state funds during FY 2017, and not with the Indirect Costs.

**Joint resolutions** decreased by approximately \$62.9 million or 54.7% when compared with fiscal year 2017 mainly due to a decrease of the contributions made to the schoolwide fund of approximately \$78.8 million. During FY2018, the PRDE only made contributions to the College Board tests with this fund. This decrease was offset by an increase in the disbursement of approximately \$15 million to the Puerto Rico Infrastructure Financing Authority (AFI, per its acronym in Spanish) and OMEP for the school's renovation project, known as "*Renueva tu Escuela*". Other increases were related to the \$925 thousand to OMEP for additional school improvements.

**Special Accounts** decreased by approximately \$92.9 million or 51.3% when compared with fiscal year 2017 mainly due to a decrease of \$54 million related to the food services for students that were not provided by the independent school food authorities during the period schools were closed after of the passing of hurricanes Irma and Maria. PRDE also experienced a decrease of student enrollment once schools started to reopen in January 2018, resulting in a reduction of the amount of food services that were provided to students during FY2018. Also, a reduction in disbursements of approximately \$31 million was related to the authorization of the Puerto Rico Treasury Department to use the 245-special account mainly for receivables only.

### **Governmental Funds Results**

PRDE has two major governmental funds: General Fund and Title I (Title I Grants to Local Educational Agencies Fund, a special revenue fund) and an additional column aggregating all other non-major governmental funds. Following is an analysis of the major changes of cash receipts and cash disbursements for these funds, if any:

#### **General Fund**

This is the main operating fund of PRDE and is used to account for the funds appropriated by the Commonwealth. Such funds are disbursed throughout the programs and functions of PRDE. The general fund is used to account for all financial transactions, except those required to be accounted for in another fund.

**Puerto Rico Department of Education  
(An Executive Agency of the Commonwealth of Puerto Rico)**

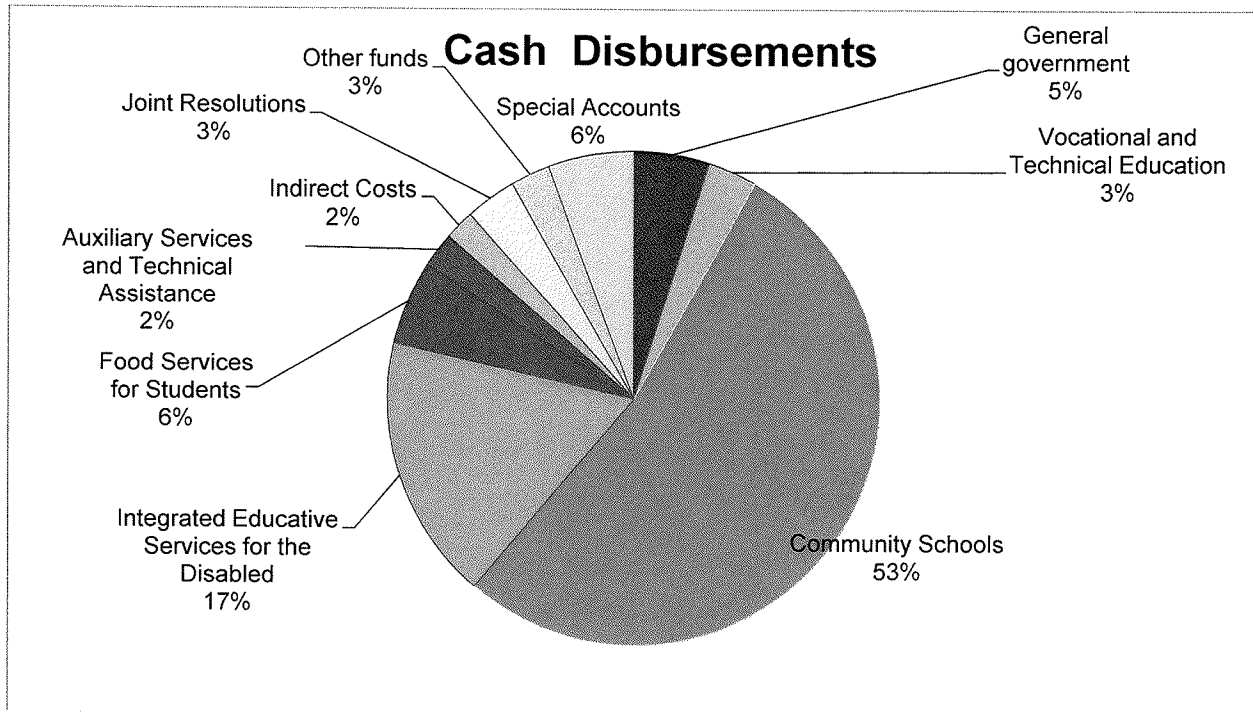
**Management's Discussion and Analysis  
June 30, 2018**

**Cash Receipts and Cash Disbursements – General Fund**

**Condensed Financial Information:**

	General fund		Change	
	2018	2017	In dollars	Percentage
<b>Cash Receipts:</b>				
Commonwealth appropriations	\$ 1,594,637,586	\$ 1,883,849,502	\$ (289,211,916)	-15.35%
<b>Cash Disbursements:</b>				
Total cash disbursements	1,552,384,858	1,862,071,577	(309,686,719)	-16.6%
<b>Excess</b>	<u>\$ 42,252,728</u>	<u>\$ 21,777,925</u>	<u>\$ 20,474,803</u>	94.0%

The main functions over which cash disbursements were made include Community Schools and Integrated Educative Services for the Disabled; however, the following chart presents a complete analysis of total cash disbursements from the General Fund per each function:





# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Management's Discussion and Analysis June 30, 2018**

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### **Title I Fund**

This fund is used to account for a portion of the Federal financial assistance programs restricted to help schools improving the teaching and learning of children failing, or most at-risk of failing, to meet challenging State academic standards.

### **Cash Receipts and Cash Disbursements – Title I Fund**

#### **Condensed Financial Information:**

	<u>2018</u>	<u>2017</u>	<u>In dollars</u>	<u>Percentage</u>
<b>Cash Receipts:</b>				
Intergovernmental - federal government	\$ 369,162,697	\$ 450,917,782	\$ (81,755,085)	-18.1%
<b>Cash Disbursements:</b>				
Total cash disbursements	367,221,813	435,173,868	(67,952,055)	-15.6%
Excess	<u>\$ 1,940,884</u>	<u>\$ 15,743,914</u>	<u>\$ (13,803,030)</u>	-87.7%

The cash receipts reflect three award years with different funding periods. In FY 2018 and FY 2017, the PRDE received awards by approximately \$396.2 million and \$418.4 million, respectively, from Title I Grants to Local Educational Agencies. The excess in cash receipts over cash disbursements is mainly attributable to timing differences. Funds requested during the end of FY 2017 were received during the beginning of FY 2018. The decrease in cash disbursements of the Title I Fund responds directly to a decrease in funds granted or approved by the federal agency during the FY 2018 compared with FY 2017. In addition, it was reflected during the year a reduction in student enrollment. Therefore, a reduction in cash disbursements related to payroll, fringe benefits, transportation service, and school closure was expected.

#### Contacting the PRDE's Financial Management

This financial report is designed to provide a general overview of the Department's finances and to demonstrate accountability for the funds administered. If you have questions about this report or need additional financial information, contact the Puerto Rico Department of Education, P.O. Box 190759, San Juan, Puerto Rico, 00919-0759.

**Puerto Rico Department of Education**  
**(An Executive Agency of the Commonwealth of Puerto Rico)**

**Statement of Cash Receipts and Cash Disbursements**  
**For the Year Ended June 30, 2018**

	<u>General Fund</u>	<u>Title I</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Cash Receipts:</b>				
Commonwealth appropriations	\$ 1,594,637,586	\$ -	\$ -	\$ 1,594,637,586
Intergovernmental – federal government	-	369,162,697	407,947,782	777,110,479
Total cash receipts	<u>1,594,637,586</u>	<u>369,162,697</u>	<u>407,947,782</u>	<u>2,371,748,065</u>
<b>Cash Disbursements:</b>				
Current:				
General government	76,366,134	-	-	76,366,134
Vocational and Technical Education	50,119,972	-	17,153,668	67,273,640
Community Schools	822,964,362	367,221,813	100,305,753	1,290,491,928
Integrated Educative Services for the Disabled	270,722,985	-	112,735,280	383,458,265
Food Services for Students	88,021,162	-	156,152,367	244,173,529
Schools' Quality of Life and Drug Free	11,025,736	-	-	11,025,736
Adult Education	1,999,709	-	6,797,924	8,797,633
Technological Institutes	5,807,662	-	9,703,599	15,511,261
Auxiliary Services and Technical Assistance	33,712,693	-	1,266,461	34,979,154
Institute for Administrative Training and Counseling to Schools	16,968	-	-	16,968
Public Schools Maintenance	20,599,590	-	-	20,599,590
Printing services	605,309	-	-	605,309
Indirect costs	30,514,674	-	-	30,514,674
Joint Resolutions	51,744,003	-	-	51,744,003
Special Accounts	88,163,899	-	-	88,163,899
Total cash disbursements	<u>1,552,384,858</u>	<u>367,221,813</u>	<u>404,115,052</u>	<u>2,323,721,723</u>
<b>Excess of cash receipts over cash disbursements</b>	<u>\$ 42,252,728</u>	<u>\$ 1,940,884</u>	<u>\$ 3,832,730</u>	<u>\$ 48,026,342</u>

# **Puerto Rico Department of Education**

## **(An Executive Agency of the Commonwealth of Puerto Rico)**

### **Notes to Statement of Cash Receipts and Cash Disbursements**

#### **June 30, 2018**

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#### **(1) Reporting Entity:**

The Department of Education of the Commonwealth of Puerto Rico ("PRDE") ("the Department") was organized under Article V, Section 6 of the Constitution of the Commonwealth of Puerto Rico (the "Commonwealth"). PRDE is presented as part of the Commonwealth's basic financial statements. PRDE is responsible for the planning and administration of all public elementary, secondary and some post-secondary education throughout Puerto Rico. The Secretary of Education is appointed by the Governor of the Commonwealth of Puerto Rico.

On July 15, 1999, the Legislature of the Commonwealth of Puerto Rico enacted Law Number 149, "*Ley Orgánica del Departamento de Educación Pública de Puerto Rico*", as amended by Law Number 85-2018 "*Ley de Reforma Educativa de Puerto Rico del 29 de marzo de 2018*". This law establishes Puerto Rico's public policy in the educative area and creates a public education system focused mainly in the students. In addition, it established a budget based on average cost per student and their needs; creates free selection school and educational voucher program, among others.

The Secretary of Education is also the Executive Director of the Office for the Improvement of the Public Schools (the "OIPS") and the PRDE has oversight responsibilities over it. However, its operations are subject to a separate financial or single audit, as applicable or required and related transactions are excluded from the accompanying Statement of Cash Receipts and Cash Disbursements.

PRDE is considered both, a State Educational Agency ("SEA") and a Local Educational Agency ("LEA") for purposes of administering federal financial assistance programs. PRDE is, for financial reporting purposes, a part of the general fund in the Commonwealth's financial statements.

#### **(2) Basis of Presentation and Summary of Significant Accounting Policies:**

##### **(a) Basis of Accounting -**

The accompanying statement of cash receipts and cash disbursements is prepared using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP") as established by the Governmental Accounting Standards Board. This basis of accounting involves the recognition of revenue and expenses when cash is received and disbursed, respectively. Because PRDE participates in a pooled cash arrangement as further discussed below, cash receipts from Commonwealth appropriations is considered received when the related disbursement is made. Cash receipts related to indirect costs and special accounts are recognized when cash is received. Disbursement is considered made once the payment voucher is approved and authorized for payment by the Puerto Rico Treasury Department. The timing of cash receipts from the Federal Government may differ from the date federally-funded payments are made. PRDE draws amounts from the pooled cash account when federal funds have not yet been received and the same is replenished once the federal funds are received. All these factors in cash receipts recognition results in an excess of cash receipts over (under) disbursements at year-end. This cash basis of accounting differs from GAAP primarily because revenues (cash receipts) are recognized when received in cash rather than when earned and susceptible to accrual, and expenditures or expenses (cash disbursements) are recognized when paid rather than when incurred or subject to accrual.

# **Puerto Rico Department of Education**

## **(An Executive Agency of the Commonwealth of Puerto Rico)**

### **Notes to Statement of Cash Receipts and Cash Disbursements**

#### **June 30, 2018**

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**(b) Basis of Presentation -**

The Entity's fiscal year ends on June 30th. All references to year in these notes to the financial statements represent the fiscal year ended, unless otherwise noted. The Entity has evaluated subsequent events through September 30, 2019 the date the financial statement was available to be issued.

**(c) Fund Financial Statement -**

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of PRDE that are reported in the accompanying statement of cash receipts and cash disbursements have been classified into governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column. The following are classified as major governmental funds:

- **General Fund** – This is the main operating fund of PRDE and is used to account for the funds appropriated by the Commonwealth.
- **Title I Grants to Local Educational Agencies Fund** – This fund is used to account for federal financial assistance programs restricted to help LEAs and schools improve the teaching and learning of children failing, or most at-risk of failing, to meet challenging state academic standards.
- **Other Governmental Funds** – These funds are used to account for transactions related to other individual federal programs.

**(d) Budgetary Accounting -**

The PRDE's budget is integrated within the general budget of the Commonwealth. The budget is adopted in accordance with a statutory basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Cash receipts are generally recognized when cash is received for federal financial assistance programs or other grants that are received from sources other than the Commonwealth. PRDE is granted the right to draw against available funds of the Secretary of the Treasury as its mean to incur in expenditures under the General Fund. Therefore, the budget approved by the Commonwealth represents the spending limit allowed to PRDE as it relates to funds appropriated by the Commonwealth.

Cash disbursements – budgetary expenditures are generally recorded when the related payment, purchase order or contract is recorded as an encumbrance. For payroll and related payments, the cash disbursement is recorded on the effective date of the payroll being processed.

Encumbrances lapse the year following the end of the fiscal year when the encumbrance was established, as established by Act No. 123 of August 17, 2001. Unencumbered appropriations lapse at fiscal year-end.

On April 29, 2017, Act No.26 establish that allocations and funds without a specific economic year, that have remained on the books without movement of disbursement or obligation for one year will be considered as having fulfilled their purposes, thus, they will be closed and entered into the General Fund; to provide that those special funds created by Law for specific purposes will be credited to the State Treasury's General Fund and will be deposited in the current bank account of the Secretary of the Treasury for the latter to have full dominion over the same.

# **Puerto Rico Department of Education**

## **(An Executive Agency of the Commonwealth of Puerto Rico)**

### **Notes to Statement of Cash Receipts and Cash Disbursements**

#### **June 30, 2018**

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Under the statutory basis of accounting, PRDE uses encumbrance accounting to record the full amount of purchase orders, contracts, and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. The Title I special revenue fund does not have a legally mandated budget.

On January 2, 2017, the Governor of Puerto Rico signed the Executive Order No. 2017-005, which required that all departments, agencies, and instrumentalities of the Government of Puerto Rico to implement the Zero-Base Budget methodology for the preparation of the budget for fiscal year 2017-2018 and subsequent fiscal years, per the applicable techniques and approaches of Zero-Base Budget and should be in conformity with the Fiscal Plan approved by the Oversight Board for Puerto Rico, pursuant to the Federal Law Pub. L. 114-187, Puerto Rico Oversight, Management and Economic Stability Act (PROMESA).

The financial statement is presented at the programmatic level. However, budgetary control and accounting are maintained at a level more detailed to provide management control, in detail, of the expenses to the appropriate level of the budget.

Federal grant funds can be carried over a specified amount of time, upon request to, and approval by the federal agencies. The financial statement is presented at the programmatic level. However, budgetary control and accounting is exercised at a lower level providing management with detailed control over expenditures at an appropriated budget level. Accordingly, no budgetary comparison schedule is presented within this statement.

**(e) Cash -**

PRDE's funds are under the custody of the Secretary of the Treasury of the Commonwealth pursuant to Act. No. 230 of July 23, 1974, as amended, known as "Commonwealth of Puerto Rico Accounting Law", The Treasury Department of the Commonwealth follows the practice of pooling cash and cash equivalents under the custody and control of the Secretary of the Treasury.

**(f) Compensated Absences -**

PRDE's employees are classified as either educational or non-educational. The educational employees accrue on a monthly basis, four (4) days of regular vacation and two (2) days of sick leave, during the academic calendar period of ten (10) months. The allowed maximum number of days of accumulated sick leave is ninety (90) days. In case of resignation or early retirement, sick leave is vested for payment if the employee has served for ten or more consecutive years. The non-educational employees accrue on a monthly basis, two and a half (2.5) days of regular vacation and one and a half (1.5) days of sick leave per calendar month during the year.

After the approval of Act No. 8 of February 6, 2017, the PRDE's non-educational employees are granted twenty-four (24) days of vacations (thirty (30) days for employees hired before February 8, 2017) and twelve (12) days of sick leave (eighteen (18) days for employees hired before February 8, 2017) annually. New employees accumulate benefits retroactively after the first three (3) months of employment. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days, respectively. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed at the current rate. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten (10) years of service who are entitled to sick leave pay up to the maximum allowed.

# **Puerto Rico Department of Education**

## **(An Executive Agency of the Commonwealth of Puerto Rico)**

### **Notes to Statement of Cash Receipts and Cash Disbursements**

#### **June 30, 2018**

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During fiscal year 1997-98, the Commonwealth amended the Public Service Personnel Law to allow certain component units and the executive agencies of the Commonwealth to annually pay their employees the accumulated vacation and sick leave earned in excess of the limits mentioned above. However, as a result of Act No. 66 of June 17, 2014, some of these excess accumulations may not be paid.

Act No. 8 of February 6, 2017 establishes that any employee will have the option of requesting a voluntary reduction of their working day by means of a prior agreement with their employer, for a reduction period equivalent to one day of work.

**(g) Operational Leases -**

The Department is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore neither the assets nor the liabilities of the lease agreements are reflected in the accounting records. Most leased property is from the Puerto Rico Public Buildings Authority ("the Authority"), a component unit of the Commonwealth. The Office of Management and Budget, along with the Department of the Treasury of Puerto Rico are responsible of making these payments to the Authority on behalf of the Department, therefore excluded from the accompanying Statement of Cash Receipts and Cash Disbursements. During the fiscal year ended June 30, 2018, these payments for lease agreements amounted to approximately \$65.7 million. Additional rent paid by the PRDE for the leasing of its central offices and other warehouses were approximately \$12 million. Information of the future minimum rental payments required under operating leases was not available.

**(h) Risk Management -**

The Commonwealth's Secretary of the Treasury is responsible of assuring that the PRDE's property is properly insured. Annually, PRDE compiles the information of all property owned and its respective market value. After evaluating this information, it is submitted to the Area of Public Insurance at the Department of the Treasury of the Commonwealth, which is responsible for purchasing all property and casualty insurance policies of all governmental instrumentalities. In management's opinion, settled claims have not exceeded commercial coverage in any of the past three fiscal years.

**(3) Going Concern:**

The discussion in the following paragraphs regarding Commonwealth, including PRDE, financial and liquidity risks provides the necessary background and support for management's evaluation as to whether there is substantial doubt about PRDE's ability to continue as a going concern for 12 months beyond the date of the financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter. GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Indicators such as negative trends in operating losses and negative cash flows, possible financial difficulties such as nonpayment or default of debt and/or restructurings or noncompliance with capital or reserve requirements, and internal or external matters impacting the governmental entity's ability to meet its obligations as they become due, are factors that are considered in this evaluation.

# **Puerto Rico Department of Education**

## **(An Executive Agency of the Commonwealth of Puerto Rico)**

### **Notes to Statement of Cash Receipts and Cash Disbursements**

#### **June 30, 2018**

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The Commonwealth currently faces a severe fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's liquidity is the vulnerability of revenue streams during times of major economic downturns and high health care, pension and debt service costs. As the Commonwealth's tax base has shrunk and its revenues affected by prevailing economic conditions, health care, pension and debt service costs have impacted significant portion of its General Fund budget, which has resulted in reduced funding available for other essential services, like the PRDE, which is part of the Commonwealth.

Considering that the PRDE is significantly dependent on the funds received from the Commonwealth to match the federal awards and comply with the levels of effort required by federal regulations, the limitation of the Commonwealth to meet its obligations on a timely manner, may have an effect on the PRDE's operations in the near term.

The following is a summary of relevant laws enacted and actions taken to address the Commonwealth's fiscal crisis:

On June 30, 2016, President Barack Obama signed into law the Puerto Rico Oversight, Management, and Economic Stability Act (codified under 48 U.S.C. §§ 2101-2241) (PROMESA). In general terms, PROMESA seeks to provide the Commonwealth with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a bankruptcy-type proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code (11 U.S.C. §§ 101, et seq.).

On January 18, 2017 (Act No. 2 of 2017), the Puerto Rico Fiscal Agency and Financial Advisory Authority Act, was enacted to expand FAFAA's powers and authority (as initially established under the Moratorium Act) so that FAFAA has the sole responsibility to negotiate, restructure, and reach agreements with creditors on all or part of the public debt or any other debt issued by any Commonwealth entity. FAFAA is also responsible for the collaboration, communication, and cooperation efforts between the Commonwealth and the Oversight Board under PROMESA. In addition, Act No. 2 of 2017 established FAFAA as the Commonwealth entity responsible for carrying out the roles inherited from the GDB along with additional duties and powers, which include, among other things: (i) oversight of the Commonwealth budget; (ii) an administrative presence on every board or committee where the GDB president is currently a member; (iii) authority to conduct audits and investigations; and (iv) authority to freeze budgetary items, appoint trustees, redistribute human resources, and change procedures.

On January 26, 2017 (Act No. 4 of 2017) it was introduced several human-capital and labor reforms to improve Puerto Rico's competitiveness and foster economic development, while relaxing legal requirements for hiring and retaining employees. Specifically, Act 4 No. of 2017 (i) established lower accrual rates for both vacation days and sick leave, (ii) approximately doubled work hours required for accrual of Christmas bonuses, (iii) placed a \$600 cap on Christmas bonuses, and (iv) reduced severance pay for unjust termination, among other reforms.

On January 29, 2017 (Act No. 5 of 2017), the Puerto Rico Fiscal Responsibility and Financial Emergency Act, was enacted to maintain the moratorium on debt payment existing under the Moratorium Act; however, it allowed the Commonwealth to segregate funds that would eventually be used to fund the payment of public debt. Act No. 5 of 2017 states that the Governor may pay debt service as long as the Commonwealth is able to continue to fund essential services, such as the health, safety, and well-being of the people of Puerto Rico, including providing for

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their education and assistance to residents. Act No. 5 of 2017 continued to declare the Commonwealth to be in a state of emergency and increased the Governor's powers to manage the Commonwealth's finances. The emergency period under Act No. 5 of 2017 was set to expire on May 1, 2017 to coincide with the expiration of the Title IV Stay (as discussed above), unless extended by an additional three months by executive order. On April 30, 2017, the Governor issued executive order OE-2017-031, which extended to the Act No. 5 of 2017 emergency period to August 1, 2017. On July 19, 2017, the Legislature enacted Act No. 46 of 2017, which further extended the Act No. 5 of 2017 emergency period through December 31, 2017. Act No. 46 of 2017 allowed the Governor to sign executive orders to extend the emergency period for successive periods of six months as long as the Oversight Board remains established for Puerto Rico under PROMESA.

On February 4, 2017 Act No. 8 of 2017, known as the Single Employer Act, was enacted to merge public agencies to establish the government as a single employer. This legislation is designed to facilitate employee transfers between the Commonwealth's 118 agencies, which prior to the enactment of Act No. 8 of 2017, these agencies operated as separate employers, with different administrative divisions and wages for the same occupations.

On April 29, 2017 Act No. 26 of 2017, known as the Fiscal Plan Compliance Act, introduced a series of changes and freezes to existing public employees' labor bargaining agreements, reductions and eliminations to previously granted public employee benefits, and other fiscal control measures geared toward compliance with the government expenditures cuts and savings.

On July 26, 2017, the Legislature approved by Joint Resolution No. 9, the allocation of \$1,475,721,000, charged to the General Fund of the State Treasury, for ordinary operating expenses of the PRDE during the fiscal year ending June 30, 2018. This allocation resulted in a decrease of \$164.4 million or 10% when compared to the general budget approved in FY 2016-2017, as a result of the cumulative economic contraction of 14.6% in the Gross State Product (real PEB) with a prediction of an additional contraction of 3% for the next two (2) years.

On September 6 and then on September 20, 2017, Puerto Rico was impacted by two consecutive hurricanes (Irma and María); these atmospheric events carried to an Island-wide crisis that interrupted the provision of all services, not the least of which were the educational ones. The aftermath of Hurricanes Irma and María, reflected the massive severity and extent of the damages caused. The PRDE was unable to restart its regular activities during some period of time, because it contributed to provide emergency relief services, including providing food and shelter to communities across the island. For months, some schools remained as shelters for people that lived in flooded areas, among other difficulties. Due to the devastation caused, the Commonwealth's Central Government and some of its instrumentalities faced severe cash shortfalls from lower revenues, higher costs and delayed or reduced cost-saving measures that had been required by the Puerto Rico's Fiscal Plan previously approved.

To the PRDE, the migration exodus reinforces a pattern of depopulation that has induced austerity and the decline in education services, teacher and non-teaching employments, closing of schools, increased poverty among the most disadvantaged such as families with children, among other unfolding consequences of sudden population losses. Due to this decline in student population, along with the high cost of maintaining school infrastructure, led the PRDE to close 255 public schools throughout the Island, leaving only 857 schools open in the 2018-2019 academic year.

On April 20, 2018 (recertified on May 30, 2018), pursuant to PROMESA and the requirements imposed by the Oversight Board, the Board Fiscal Plan commits to fiscal responsibility and implements specific revenue enhancements and targeted expenditure reductions (health care and higher education spending), pension reform, improving capital efficiency, structural reforms and debt restructuring process to return Puerto Rico to fiscal stability and economic growth. On June 29, 2018, the Oversight Board certified its fiscal plan for the Commonwealth.



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On August 2018, the PRDE experienced a sharp decline in pre-K-12 student enrollment, as a result of Puerto Rico's long economic crisis and the migration of families with children to the U.S. mainland after Hurricanes' Irma and Maria. According to PRDE, approximately one-year post-Hurricane Maria (October 2018), only 307,282 students enrolled in public schools, compared to 365,181 enrolled during school year 2017.

On October 23, 2018, pursuant to PROMESA and the requirements imposed by the Oversight Board, the Oversight Board certified its own fiscal plan for the Commonwealth (the Board Fiscal Plan). The Board Fiscal Plan commits to fiscal responsibility and implements specific revenue enhancements and targeted expenditure reductions to return Puerto Rico to fiscal stability and economic growth.

On January 18, 2019, the Oversight Board requested the Governor to submit a new Commonwealth fiscal plan to replace the Board Fiscal Plan.

On March 10, 2019, the Governor submitted a new proposed Commonwealth fiscal plan which was certified by the Oversight Board on May 9, 2019.

Given the fact that budget appropriation for the PRDE has historically represented a significant portion of the total Commonwealth General Fund budget, as Commonwealth's liquidity continues to be challenged and their appropriations and financing ability become more uncertain, PRDE's financial condition and liquidity is similarly affected. In addition, the substantial reduction in student enrollment could affect federal fund programs that are funded on a per capita basis.

#### **(4) Stewardship, Compliance and Accountability:**

The budget of PRDE is part of the general budget of the Commonwealth. As a result, legal control is maintained by the Director of the Office of Management and Budget of the Commonwealth. The budgetary control and accountability of the PRDE is maintained by the Commonwealth. Accordingly, no budgetary comparison schedule is presented within this statement.

#### **(5) Indirect Cost Rate Proposal:**

Generally, each year, the Department submits an indirect cost rate proposal for approval by the United States Department of Education ("the USDE"), the Audit Cognizant Agency. On December 8, 2015, the USDE entered into an Indirect Cost Rate Agreement No. 2017-015 (C) with the PRDE which replaced the previous agreement No. 2015-015 (B). This agreement includes final rates which became effective on July 1, 2013 until June 30, 2015 and also includes provisional rates, covering the period under audit, beginning on July 1, 2015 until September 30, 2018. The rates within the Agreement for FY2018 were 6.3% for school lunch programs and 4.1% for all other programs, based on salaries and wages, including fringe benefits, among other costs. These rates are used to allocate qualified types of expenditures from state funds to the federal financial assistance programs.

#### **(6) Retirement Plans:**

The two employee retirement systems described in the following paragraphs administered the pension funds for the Department until the enactment of the Act for Guaranteeing the Payment to Retirees and Establishing a New Defined Contributions Plan for the Public Servicers ("Act No. 106") on August 23, 2017. These Retirement Systems are subject to legislative and executive controls, and their administrative expenses are subject to legislative budget controls. The Retirement Systems, as governmental retirement plans, are excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the Primary Government's agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, the new

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

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PayGo mechanism for all the Commonwealth's Retirement Systems. At the beginning of fiscal year 2018, employer's contributions, contributions ordered by special laws and the Additional Uniform Contribution were all eliminated and replaced by a monthly PayGo charge that will be collected from the aforementioned government entities to pay retirees. The Retirement Systems will determine and administer the payment amount per retiree that will be charged to each agency, public corporation and a municipality. The Pay Go charge must be submitted to the Treasury Department before the 15<sup>th</sup> day of each month along with the individual contributions withheld from active employees. As liquid retirement funds become depleted, the PayGo charge is expected to increase.

In addition to the establishment of the PayGo mechanism, on August 23, 2017, the Governor signed into law Act No. 106, reformed the Commonwealth's pensions by replacing the governing boards of the Retirement System with a single Retirement Board of the Commonwealth of Puerto Rico (Retirement Board) and establish a separate "Account for the Payment of Accrued Pensions" to implement a PayGo method for the Retirement Systems. Act No. 106 created the legal framework so that the Commonwealth can guarantee payments to pensioners through the PayGo system.

### **(a) Teachers Retirement System ("TRS") -**

Plan Description – Prior to August 23, 2017, the TRS was a single-employer defined-benefit pension plan administered by the Puerto Rico Teachers Retirement System. It was a trust created by Act No. 218 of 1951, as superseded by Act No. 91 of 2004, to provide pension and other benefits mainly to retired teachers of the PRDE.

Prior to August 23, 2017, TRS administered two benefit structures pursuant to Act No. 160 of 2013 ("Act 160"), as modified by the April 11, 2014 decision of the Puerto Rico Supreme Court. Benefit provisions vary depending on member's date of hire as follows:

- Members hired on or before July 31, 2014 with certain distinctions for members who retire August 1, 2014 or later (contributory, defined-benefit program)
- Members hired August 1, 2014 or later (contributory, hybrid program)

All active teachers of PRDE become Plan members of the TRS at their date of employment. Licensed teachers working in private schools or other educational organizations had the option to become members of TRS as long as the required employer and employee contributions were satisfied.

The benefits provided to members of TRS are established by Commonwealth of Puerto Rico law and may be amended only by Legislature with the Governor's approval.

The most important aspects of Act 160, as modified by the April 11, 2014 decision of the Puerto Rico Supreme Court are as follows: (i) Active participants as of July 31, 2014 continue to participate in the defined benefit pension plan; (ii) Starting August 1st, 2014, the defined benefit pension plan was closed for future participants and they contribute to a defined contribution pension plan; (iii) The retirement age for new employees hired on or after August 1st, 2014 is increased to age 62; (iv) The employee contributions for employees hired on or after August 1st, 2014 is increased to 10% from August 1st, 2014 to June 30, 2017, 13.12% from July 1st, 2017 to June 30, 2020, and 14.02% from July 1st, 2020 and thereafter; (v) Special benefits payable to active participants that retire on or before July 31st, 2014 will be reduced and (vi) Postemployment Healthcare Benefits will be eliminated for future retirees.

The Plan members of the TRS hired on or before July 31, 2014 were eligible for retirement, death, and disability benefits. Benefits vest after completion of a given number of years of credited service based on age. Benefits are determined by the application of stipulated benefit ratios to the members' average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by TRS.

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The annuity for which a plan member was eligible is limited to a minimum of \$400 per month and a maximum of 75% of the average compensation.

The contribution requirement to the TRS is established by law and is not actuarially determined. Contributions by members hired on/or before July 31, 2014 are 9% of compensation. Contributions by members hired on or after August 1, 2014 are as follows: 10% of compensation for fiscal years 2015 through 2017, 13.12% of compensation for fiscal years 2018 through 2020, and 14.02% of compensation for fiscal year 2021 and each year thereafter.

Employer contributions to TRS are 9.5% of covered payroll for the fiscal year beginning July 1, 2011. For the next fiscal year effective July 1, employer contributions will increase annually by 1%. For the next five fiscal years, employer contributions will increase annually by 1.25% reaching an employer contributions rate of 19.75% effective July 1, 2020. Effective July 1, 2021 and later fiscal years the employer contributions rate will be 20.25%. The employer contribution rate for fiscal year 2018 was 8.5% pursuant to Act No. 106 and Circular Letter No. 1300-14-18 issued by the Treasury Department.

**(b) Employees' Retirement System ("ERS") -**

Plan Description - All other employees of PRDE participate in the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities ("ERS"). Prior to August 23, 2017, ERS was a defined benefit, cost-sharing, multi-employer plan administered by the Puerto Rico Government Employees Administration. It is a trust created by Act No. 447 of 1951 ("Act 447"), as amended, to provide pension and other benefits to retired employees of the Commonwealth and its instrumentalities. ERS began operations on January 1, 1952 at which date, contributions by employers and participating employees commenced.

Prior to August 23, 2017, ERS administered different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program ("System 2000") and a defined contribution hybrid program. Benefit provisions vary depending on member's date of hire. Membership was mandatory for all regular, appointed, and temporary employees at the date of employment.

The benefits provided to members of ERS were established by Commonwealth law and may be amended only by the Legislature with the Governor's approval. On April 4, 2013, the Governor of the Commonwealth of Puerto Rico, signed into law Act No. 3 of 2013 ("Act 3-2013"), which amended the provisions of the benefit structures under ERS.

Members who had entered the Employees Retirement System before January 1, 2000 participated in a defined benefit program. Members who began to participate prior to April 1, 1990 were entitled to the highest benefits structure, while those who began to participate on or after April 1, 1990 were subject to a longer vesting period and a reduced level of benefits, as provided by Act No. 1 of February 16, 1990 ("Act 1-1990").

In 1999, Act 447 was amended to close the defined benefit program for new participants and, prospectively, establish a new benefit structure similar to a cash balance plan (this new benefit structure is referred to as System 2000). Members who entered the ERS on or after January 1, 2000 ("System 2000 Participants") participate solely in System 2000. Act 3-2013 amended the law to eliminate the lump sum distribution alternative and substitute it for a life annuity payable to the System 2000 Participant. System 2000 Participants do not benefit from any employer contributions. Instead, employer contributions made on account of System 2000 Participants were used to reduce the accumulated unfunded pension benefit obligation of the ERS. System 2000 is not a separate plan as there are no separate accounts for System 2000 Participants. Contributions received from System 2000 Participants were pooled and invested by the ERS together with the assets corresponding to the defined benefit structure of Act 447 and Act 1-1990 and the defined contribution

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structure of System 2000, as amended by Act 3-2013, were paid from the same pool of assets of the ERS. Retirement and related benefits provided by the ERS and required contributions to the ERS by employers and employees, are determined by law rather than by actuarial requirements. Effective July 1, 2013, all participants will contribute a minimum of 10% with no maximum restriction of their gross monthly salary. Commencing in fiscal year 2012, PRDE pay a contribution of 10.275% of the employees' gross salary and will increase 1% per year until fiscal year 2016 and 1.25% per year until fiscal year 2021. The employer contribution rate for fiscal year 2018 was 16.775%.

The ERS provided basic benefits under the defined benefit program principally consisting of a retirement annuity and death and disability benefits (collectively referred to herein as Basic System Pension Benefits). The ERS also administered benefits granted under various special laws that have provided additional benefits for the retirees and beneficiaries (collectively referred to herein as System Administered Pension Benefits). The System Administered Pension Benefits include, among others, additional minimum pension, death and disability benefits, ad-hoc cost-of-living adjustments and summer and Christmas bonuses. Act 3-2013 amended the various laws providing some of these System Administered Pension Benefits to reduce some of the amounts payable to existing retirees while eliminating the benefits for all future retirees.

On December 8, 2015, Act No. 211 was approved to create the Volunteer Pre-retirement Program that offer a preretirement opportunity to Commonwealth of Puerto Rico employees who enrolled in the Retirement System before April 1st, 1990, or who began working in the Commonwealth of Puerto Rico before that date and were unable to contribute to the Retirement System due to their job status, but subsequently paid those previous years of service so that these could be credited retroactively to a date prior to April 1st, 1990, or those employees who opted out of the Retirement Savings Account Program and have at least twenty (20) years of credited services under the benefit structure provided in Act No. 447 of May 15, 1951, as amended.

The incentives provided by the program include a compensation equal to sixty percent (60%) of the employees' average compensation as of December 31st, 2015, while they participate in the Program; the payout of unused vacation and sick leaves, taking into account the limit established in Act No. 66-2014 and exempt from taxation, and the payment of employer contributions on account of Social Security and Medicare, and to keep their health insurance coverage or to continue receiving their employer contribution for the health insurance under the same terms and conditions as if he/she were an employee, for a term of two (2) years. Moreover, this Program provides for the employer to continue making both individual and employer contributions to the Retirement System for Employees of the Government of the Commonwealth of Puerto Rico, thus guaranteeing an increase in their future retirement annuity, which shall never be less than fifty percent (50%) of their average compensation as of June 30th, 2013, and in the case of the members of the Puerto Rico Police, as defined in Act No. 53-1996, as amended, it may reach up to sixty percent (60%) of the average compensation as of June 30th, 2013, by combining frozen contributions as of June 30th, 2013 and the annuity of the Defined Contribution Hybrid Program. As of June 30, 2018, the Department made payments of \$2.7 million as a result of this Program.

#### **(7) Commitments and Contingencies:**

##### **(a) Federal Financial Assistance Programs -**

The Department is a grantee in various federal financial assistance programs. Entitlement to the resources is generally based on compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditures of the resources for eligible purposes. Based on this, the Department is required to comply with the audit requirements established by the Uniform Guidance.

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**(b) Special Conditions -**

On a communication dated June 30, 2017 the USDE issued a letter imposing special conditions on all grants awarded to the PRDE for FY 2017, as well as on all grants previously awarded by USDE to PRDE that are still available for obligation or liquidation on the date of the special conditions. This Special Condition Letter requires PRDE to submit status reports on a series of items connected to the 2007 Memorandum of Agreement ("MOA"). PRDE is specifically required to (i) enhance and develop a system or systems to capture information on Personal Service Contracts ("PSC") and Professional Services Contract ("ProsSC") in order to better account for and reconcile federal expenditures, (ii) compliance with Grants Management System (iii) compliance with Regulations Enforcement, (iv) continued reporting on implementation of Activities under the MOA and 2007 Agreement, (v) internal audit office and audit oversight committee, (vi) prompt response to request for records, and (vii) Program-Specific conditions. Management believes that the PRDE is substantially in compliance with terms and conditions imposed by the Special Condition Letter.

**(c) Flexibility Plan -**

On July 9, 2015 the U.S Department of Education ("ED") reviewed Puerto Rico's request to renew Puerto Rico's ESEA flexibility for three additional years, through the end of the 2017-2018 school year.

With this renewal, Puerto Rico is able to continue implementing its plan to promote innovative, locally tailored strategies to improve educational outcomes for all students, close achievements gaps, increase equity, and improve the quality of instruction. In the ESEA flexibility request, the U.S Department of Education also approved Puerto Rico's amendments to its flexibility plan. This plan was succeeded by Consolidated State Plan under the Every Student Succeeds Act ("ESSA"). See Note (7)(d).

**(d) Every Student Succeeds Act -**

On December 10, 2015, President Obama signed the Every Student Succeeds Act ("ESSA"), a New Education Law that reauthorizes the 50-year-old Elementary and Secondary Education Act ("ESEA"). This new law builds on key areas of progress in recent years, made possible by the efforts of educators, communities, parents, and students across the country.

ESSA will ensure success for students and schools as it advances equity by upholding critical protections for America's disadvantaged and high-need students; that all students in America be taught to high academic standards that will prepare them to succeed in college and careers; ensure that vital information is provided to educators, families, students, and communities through annual statewide assessments that measure students' progress toward those high standards; help to support and grow local innovations; increase access to high-quality preschool; and, maintain an expectation that there will be accountability and action to effect positive change in our lowest-performing schools, where groups of students are not making progress, and where graduation rates are low over extended periods of time.

The U.S. Department of Education ("USDE") has required each SEA to submit a consolidated State plan by April 3, 2017 or September 18, 2017, two deadlines available for the SEA's choice.

In the Consolidated State Plan, PRDE should describe its implementation of programs across the ESEA and to leverage funding to ensure a focus on equity and excellence for all students. PRDE must explain how it will collaborate across all programs to build a more cohesive, coherent, and efficient plan in order to improve the educational opportunities for all children and close achievement gaps.

PRDE's Consolidated State Plan under the ESSA was submitted on September 18, 2017 and approved on January 17, 2018 by the USDE.

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**(e) Current Single Audit -**

The Report on Compliance and Internal Control Over Compliance Applicable to Each Major Federal Award Program issued in connection with the single audit for the year ended June 30, 2018, presents findings that are considered events of noncompliance with applicable laws and regulations and significant deficiencies in internal control over compliance. Some of these significant deficiencies were also considered material weaknesses. Additionally, the schedule of findings and questioned costs in the single audit report includes questioned costs amounting to \$581,662.

**(f) Other Audits -**

PRDE is also audited by the Office of the Controller for Puerto Rico (the Controller), the Office of the Inspector General of the USDE (OIG), PR Department of Treasury and other grantor agencies or institutions. The Controller and the OIG have issued several reports on audits over the operations and management of the PRDE, some of which involve federal programs. The PRDE is currently being subjected to certain proceedings by the Puerto Rico Department of Justice, the USDE and the Office of the Controller of Puerto Rico, because of audit findings from previous years.

Under certain circumstances, as provided by Act No. 104 dated June 29, 1955, as amended, the Commonwealth of Puerto Rico may provide its officers and employees of the Puerto Rico agencies and instrumentalities with legal representation, as well as assume the payment of any judgment that may be entered against them. There is a limitation of up to \$75,000 for the damages to a person and \$150,000 for the damages to more than one person or for more than one course of action, on the payment of such judgments. The oversight entities, such as the Puerto Rico Department of Justice, the Puerto Rico Department of the Treasury, and the federal government, are evaluating actions to be taken against the PRDE and/or its employees, if any. The financial impact and enforcement actions, if any, that might be taken by the oversight entities cannot presently be determined.

**(g) Other Litigation Matters -**

The PRDE is a defendant in lawsuits arising in the normal course of operations, principally from claims or alleged damages. According to the laws of the Commonwealth, PRDE is represented by the Puerto Rico Department of Justice in defense of all legal cases against PRDE. Any claims with negative financial impact would be paid from the General Fund of the Commonwealth, with no effect on the budget or resources of the PRDE.

**(8) Subsequent Events:**

**Puerto Rico Department of Education Technical Education Program ("ITEC")**

On May 30, 2018, ITEC received from Federal Student Aid ("SFA") (School Participation Division) a final determination related to a program review establishing and communicating: (1) liabilities resulting from the findings regarding program review report, (2) providing instructions of payments for such liabilities, (3) notifying PRDE the right of appeal and (4) notifying that the program will be referred to the Administrative Actions and Appeals Service Group ("AAASG"). Total liability imposed by the federal program to ITEC amounted to \$2,341,546.

However, in July 1, 2019, ITEC filed an appeal as a result of the final determination. On August 20, 2019, the appeal was accepted by the USDE with certain instructions and requirements. As of the date of the issuance of the financial statement the program is currently in the due process to comply with these requirements established in the appeal and the findings included in the final determination.

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Notes to Statement of Cash Receipts and Cash Disbursements June 30, 2018**

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### Those Charged with Governance

On April 1, 2019, the former secretary of the PRDE, Julia B. Keleher, resigned to her position for reasons of a professional nature. As a result, the vacancy of the position was assumed by Dr. Eligio Hernández Pérez. On June 24, 2019, the Senate of Puerto Rico endorsed the appointment of Dr. Eligio Hernández Pérez as the new secretary of the PRDE.

Subsequently, on July 10, 2019 a federal authority filed criminal charges against the former Secretary. On July 16, 2019, the former secretary pleaded not guilty of the charges against her. As of to date, the case is open and in process.

On August 7, 2019, the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board") announced that it will conduct an examination to determine whether the integrity of any of the services provided by BDO Puerto Rico and its affiliates ("BDO") was impaired or affected by alleged fraudulent or illegal activities of its former managing partner, who was recently charged by federal authorities. The investigation will be focused on audit, accounting and other services performed by BDO since 2016 to the Commonwealth and its instrumentalities. BDO held approximately 96 contracts with the Commonwealth and its instrumentalities during the period in question. As of June 30, 2018, PRDE made payments of approximately \$3.6 million to BDO for services performed.

### Commonwealth Fiscal Plan

As of the date of the issuance of the accompanying Statement of Cash Receipts and Cash Disbursements, the joint resolutions for the year 2019-2020 had been released by the Commonwealth and the Board. For the fiscal years 2019-2020 and 2018-2019, the PRDE had a budget of \$2,398,500,000 and \$2,536,283,000 from the General Fund respectively, which represents a decrease of approximately \$138,000,000. These appropriations include approximately \$1,053,436,000 and \$1,011,883,950 respectively to pay for existing pensions under the PayGo system.

### Specific Conditions – Federal Fiscal Year 2019

On June 28, 2019, the PRDE received from the USDE, Office of Grants Administration, an official communication imposing special conditions in all grants awarded to the PRDE for Federal Fiscal Year 2019, as well on all previously awarded by the USDE to PRDE that are still available for obligation or liquidation on the date these conditions were imposed. Further communications were later received from the USDE indicating that SFA Cluster grants are not subject to the Special Conditions imposed during June 2019.

In accordance with regulations governing specific conditions in 2 CFR §200.207 in the Office of Management and Budget Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and Section III.A of the FY 2018 PRDE Departmental Specific Conditions, the USDE is imposing additional specific conditions, which includes the requirement that PRDE must procure the services of a third party fiduciary agent, acceptable to the USDE, to perform financial management duties required under federal laws and regulations for all USDE awards made to the PRDE.

The specific conditions maintain, with appropriate changes, certain provisions from the FFY 2018 Departmental Specific Conditions with respect to PRDE's implementation of Part B of the Individuals with Disabilities Education Act, full implementation of the Internal Audit Office and Audit Oversight Committee, among other matters.

As a result of these conditions, the PRDE agrees that by accepting grant awards subject to the terms of these specific conditions, it will draw down funds and charge costs against its grant awards only in accordance with the first in- first out (FIFO) accounting procedure, therefore charging costs first again FY 2017 grant awards, then against FY 2018 grant awards, and then against FY2019 grant awards, at least until it has procured the services of the Agent that is under contract to carry out the duties and responsibilities.

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**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2018**

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Passed Through to Subrecipients</b>	<b>Total Federal Expenditures</b>
<b>U.S. Department of Agriculture:</b>				
Child Nutrition Cluster:				
Non-cash assistance (commodities):				
National School Lunch Program	10.555		\$ -	\$ 12,395,157
Cash assistance:				
National School Lunch Program	10.555		125,981,161	125,981,161
Summer Food Service Program for Children	10.559		10,572,061	10,871,867
Child and Adult Care Food Program	10.558		16,909,759	17,179,300
State Administrative Expenses for Child Nutrition	10.560		-	1,872,063
Child Nutrition Discretionary Grants Limited Availability	10.579		-	206,131
Fresh Fruit and Vegetable Program	10.582		41,845	41,845
<b>Total U.S. Department of Agriculture</b>			<u>153,504,826</u>	<u>168,547,524</u>
<b>National Endowment of the Humanities:</b>				
Grants to States	45.310		263,739	764,898
<b>U.S. Department of Education:</b>				
Adult Education - Basic Grants to States	84.002		3,228,391	6,033,026
Student Financial Assistance Cluster:				
Federal Supplemental Educational Opportunity Grants	84.007		-	44,507
Federal Work - Study Program	84.033		-	182,556
Federal Pell Grant Program	84.063		-	9,476,536
Title I Grants to Local Educational Agencies	84.010		-	367,221,813
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013		-	632,990
Special Education Cluster:				
Special Education Grants to States	84.027		-	109,456,185
Special Education Preschool Grants	84.173		-	3,279,095
Impact Aid	84.041		-	587,863
Career and Technical Education -- Basic Grants to States	84.048		-	16,520,678
Education for Homeless Children and Youth	84.196		-	1,393,350
Twenty-First Century Community Learning Centers	84.287		19,179,570	19,607,522
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326		-	-
English Language Acquisition State Grants	84.365		-	2,557,231
Mathematics and Science Partnerships	84.366		-	3,264,388
Supporting Effective Instruction State Grants	84.367		-	61,290,075
Grants for State Assessments and Related Activities	84.369		-	1,948,910
Statewide Longitudinal Data Systems	84.372		-	678,598
School Improvement Grants	84.377		-	10,212,590
Student Support and Academic Enrichment Program	84.424		-	30,210
<b>Total U.S. Department of Education</b>			<u>22,407,961</u>	<u>614,418,123</u>
<b>U.S. Department of Health and Human Services:</b>				
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	93.079		-	1,477
<b>Total Expenditures of Federal Awards</b>			<u>\$ 176,176,526</u>	<u>\$ 783,732,022</u>



# Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)

## Notes to Schedule of Expenditures of Federal Awards June 30, 2018

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(1) **Basis of Presentation:**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Puerto Rico Department of Education ("PRDE" or "the Entity") under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

(2) **Summary of Significant Accounting Policies:**

The supplementary Schedule of Expenditures of Federal Awards (the "Schedule") has been prepared using the cash basis method of accounting. It is drawn primarily from the PRDE's internal accounting records, which are the basis for the PRDE's Statement of Cash Receipts and Cash Disbursement (the "Statement").

Pass-through entity identifying numbers are presented where available, if applicable.

(3) **Clusters:**

A cluster of programs means federal programs with different CFDA numbers that are defined as a cluster of programs because they are closely related programs that share common requirements. The Schedule includes the following clusters:

Clusters	Federal Program	Federal CFDA Number
Child Nutrition	National School Lunch Program	10.555
	Summer Food Service Program for Children	10.559
Student Financial Assistance Programs	Federal Supplemental Educational Opportunity Grants	84.007
	Federal Work - Study Program	84.033
	Federal Pell Grant Program	84.063
Special Education	Special Education - Grants to State	84.027
	Special Education - Preschool Grants	84.173

(4) **Program Costs:**

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the state's portion, are more than shown.

(5) **Non-Cash Assistance – Commodities:**

The Schedule includes one program for which receipts and disbursements are in the form of non-cash items. These non-cash items are valued in accordance with the guidelines established by the United States Department of Agriculture. This program is not included in the PRDE's Statement.

(6) **Schoolwide Program Funds:**

A schoolwide program is a comprehensive reform strategy designed to upgrade the entire educational program in a Title I school; its primary goal is to ensure that all students, particularly those who are low-achieving, demonstrate proficient and advanced levels of achievement on State academic achievement standards.

**Puerto Rico Department of Education**  
**(An Executive Agency of the Commonwealth of Puerto Rico)**

**Notes to Schedule of Expenditures of Federal Awards**  
**June 30, 2018**

Schoolwide programs are not separate federal programs as defined in the Uniform Guidance, amounts used in schoolwide programs are included in the total expenditures of the program contributing the funds in the Schedule of Expenditure of Federal Awards. The following program amounts were expended by the PRDE in its schoolwide program:

<u>CFDA No.</u>	<u>Name of Federal Program</u>	<u>Expenditures in the Consolidated Fund</u>
84.010	Title I Grants to Local Educational Agencies	\$ 236,297,575
84.367	Supporting Effective Instruction State Grants	48,441,214
N/A	Community School Program - State Funds	711,777,520
		<u>\$ 996,516,309</u>

**(7) Consolidated Program Funds:**

The Elementary and Secondary Education Act (ESEA), as amended by the Every Students Succeed Act (ESSA), allows a local educational agency (LEA), upon approval by the state education agency, to consolidate and use funds for the administration of one or more programs under this Act (Section 8203(a)).

The main goal for the use of the consolidated funds is to administration of the programs included in the consolidation, or the use funds available for administrative activities designed to enhance the effective and coordinated use of funds under programs included in the consolidation.

Consolidated funds are not separate federal programs as defined in the Uniform Guidance; amounts used in consolidated funds are included in the total expenditures of the program contributing the funds in the Schedule. The following federal program amounts were expended by the PRDE in its consolidated fund:

<u>CFDA No.</u>	<u>Name of Federal Program</u>	<u>Expenditures in the Consolidated Fund</u>
84.010	Title I Grants to Local Educational Agencies	\$ 20,676,383
84.367	Supporting Effective Instruction State Grants	2,508,540
84.287	Twenty-First Century Quality State Grants	409,264
84.365	English Language Acquisition State Grants	153,392
84.424	Student Support and Academic Enrichment Program	30,210
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	5,090
		<u>\$ 23,782,879</u>

**(8) Indirect Cost Rate:**

The amount expended includes \$26.4 million claimed as an indirect cost recovery using an approved indirect cost rate of 6.3% for school lunch programs and 4.1% for all other programs based on salaries and wages, including fringe benefits.

**Independent Auditors' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards**

Honorable Eligio Hernández  
Secretary  
Department of Education of the  
Commonwealth of Puerto Rico  
San Juan, Puerto Rico

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We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Cash Receipts and Cash Disbursements (the "Statement") of the Puerto Rico Department of Education ("PRDE" or "the Entity"), for the year ended June 30, 2018 and the related notes to the financial statement, which collectively comprise the Entity's basic financial statement, and have issued our report thereon dated September 30, 2019. Our report includes an emphasis of a matter paragraph which states along with other matters, that PRDE as an executive agency of the Commonwealth of Puerto Rico faces significant risks and uncertainties, including liquidity risk. These conditions raise substantial doubt about PRDE's ability to continue as a going concern. Our report also includes a paragraph indicating that the Statement only purports to presents the cash receipts and cash disbursements attributable to the Entity.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statement, we considered PRDE's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the statement, but not for the purpose of expressing an opinion of the effectiveness of PRDE's internal control. Accordingly, we do not express an opinion on the effectiveness of PRDE's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2018-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2018-002 to be a significant deficiency.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether PRDE's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **PRDE's Response to Findings**

PRDE's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. PRDE's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PRDE's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PRDE's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Juan, Puerto Rico,  
September 30, 2019.

*Kevane Grant Thornton LLP*



**Independent Auditor's Report on Compliance for  
Each Major Program and on Internal Control Over  
Compliance Required by the Uniform Guidance**

Honorable Eligio Hernández  
Secretary  
Department of Education of the  
Commonwealth of Puerto Rico  
San Juan, Puerto Rico

**Report on Compliance for Each Major Federal Program**

We have audited the **Puerto Rico Department of Education's** ("PRDE" or "the Entity") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of PRDE's major federal programs for the year ended June 30, 2018. PRDE's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of PRDE's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PRDE's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of PRDE's compliance.

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***Basis for Qualified Opinion on Major Federal Programs***

As described in the accompanying schedule of findings and questioned costs, PRDE did not comply with requirements regarding the following:

Finding #	Compliance Requirement	CFDA#	Program (or Cluster) Name
2018-001	Allowable Cost / Cost Principles	10.558	Child and Adult Care Food Program
		10.559	National School Lunch Program
		84.002	Adult Education - Basic Grants to States
		84.010	Title I Grants to Local Educational Agencies
		84.027/84.173	Special Education Cluster
		84.048	Career and Technical Education - Basic Grants to States
		84.196	Education for Homeless Children and Youth
		84.367	Supporting Effective Instruction State Grants
2018-003	Equipment and Real Property Management	84.377	School Improvement Grants
2018-003	Equipment and Real Property Management	45.310	Grants to States
		84.048	Career and Technical Education - Basic Grants to States
2018-004	Reporting	84.027/84.173	Special Education Cluster
2018-005	Cash Management	45.310	Grants to States
		84.002	Adult Education - Basic Grants to States
		84.007/84.033/	
		84.063	Student Financial Assistance Cluster
		84.027	Special Education Cluster
		84.048	Career and Technical Education - Basic Grants to States
		84.367	Supporting Effective Instruction State Grants
2018-010	Reporting	84.007/84.033/	
		84.063	Student Financial Assistance Cluster
2018-011	Special Tests and Provisions	84.007/84.033/	
		84.063	Student Financial Assistance Cluster
2018-014	Cash Management	84.007/84.033/	
		84.063	Student Financial Assistance Cluster
2018-015	Procurement		All Major Programs
2018-016	Reporting	84.007/84.033/	
		84.063	Student Financial Assistance Cluster
2018-019	Eligibility	84.007/84.033/	
		84.063	Student Financial Assistance Cluster

Compliance with such requirements is necessary, in our opinion, for PRDE to comply with the requirements applicable to those programs.

***Qualified Opinion on Major Federal Programs***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, PRDE complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, PRDE complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2018.

***Other Matters***

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as findings 2018-002, 2018-006 through 2018-009, 2018-012, 2018-013, 2018-017, 2018-018, 2018-020, and 2018-021. Our opinion on each major federal program is not modified with respect to these matters.

PRDE's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. PRDE's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

***Report on Internal Control Over Compliance***

Management of PRDE is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit of compliance, we considered PRDE's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of PRDE's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 2018-001, 2018-003,

2016-004, 2018-005, 2018-010, 2018-011, 2018-014 through 2018-016 and 2018-019 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 2018-002, 2018-006 through 2018-009, 2018-012, 2018-013, 2018-017, 2018-018, 2018-020 and 2018-021, to be significant deficiencies.

PRDE's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. PRDE's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

San Juan, Puerto Rico,  
September 30, 2019

*Kevane Grant Thornton LLP*





**Puerto Rico Department of Education  
(An Executive Agency of the Commonwealth of Puerto Rico)**

**Schedule of Findings and Questioned Costs  
Year Ended June 30, 2018**

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**Section I - Summary of Auditor's Results**

**Financial Statements -**

Type of auditor's report issued:

Qualified

Internal control over financial reporting:

· Material weakness(es) identified?

X  yes   no

· Significant deficiency(ies) identified that are not considered to be material weakness(es)?

X  yes   none reported

Noncompliance material to financial statements noted?

yes  X  no

**Federal Awards -**

Internal control over major programs:

· Material weakness(es) identified?

X  yes   no

· Significant deficiency(ies) identified that are not considered to be material weakness(es)?

X  yes   none reported

Type of auditor's report issued on compliance for major programs:

Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

X  yes   no

**Identification of Major Programs -**

**CFDA Number**

**Name of Federal Program**

10.555  
10.559  
10.558  
45.310  
84.002

Child Nutrition Cluster  
National School Lunch Program  
Summer Food Service Program for Children  
Child and Adult Care Food Program  
Grants to States  
Adult Education - Basic Grants to States  
Student Financial Assistance Cluster  
Federal Supplemental Educational Opportunity Grants  
Federal Work-Study Program  
Federal Pell Grant Program  
Title I Grants to Local Educational Agencies  
Special Education Cluster  
Special Education Grants to State  
Special Education Preschool Grants  
Career and Technical Education -- Basic Grants to States  
Twenty-First Century Community Learning Centers  
Supporting Effective Instruction State Grants

84.007  
84.033  
84.063  
84.010

84.027  
84.173  
84.048  
84.287  
84.367

Dollar threshold used to distinguish between type A and type B programs:

**\$3,000,000**

Auditee qualified as low-risk auditee?

yes  X  no

**Section II - Financial Statements Findings**

Financial statement findings comprise of findings 2018-001 and 2018-002. Refer to Section III - Federal Award Findings and Questioned Costs, for a detailed description of the findings.

**Puerto Rico Department of Education**  
**(An Executive Agency of the Commonwealth of Puerto Rico)**

**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2018**

**Section III- Federal Award Findings and Questioned Costs**

**Finding Number: 2018-001**

Federal Programs: CFDA No. 10.558; Child and Adult Care Food Program  
 CFDA No. 10.559; National School Lunch Program  
 CFDA No. 10.560; State Administrative Expenses for Child Nutrition  
 CFDA No. 84.002; Adult Education – Basic Grants to States  
 CFDA No. 84.010; Title I Grants to Local Educational Agencies  
 CFDA No. 84.027 and 84.173; Special Education Cluster  
 CFDA No. 84.048; Career and Technical Education - Basic Grants to States  
 CFDA No. 84.196; Education for Homeless Children and Youth  
 CFDA No. 84.367; Supporting Effective Instruction State Grants  
 CFDA No. 84.377; School Improvement Grants

*Category:*

Financial Statement Finding  
 Internal Control / Compliance

*Compliance Requirement:*

Allowable Costs / Cost Principles

*Condition:*

As part of our audit procedures, we obtained from Teachers Retirement Systems and Employees' Retirement Systems the required confirmation and identified that no payments were issued regarding employer's contributions during the year ended June 30, 2018. The statement of cash receipts and cash disbursements includes amount disbursed as follows:

CFDA	Description	Amount
<u>Federal Programs:</u>		
84.027	Special Education Grants to State	\$ 279,700
84.010	Title I Grants to Local Educational Agencies	110,222
84.048	Career and Technical Education - Basic Grants to States	43,571
84.173	Special Education Preschool Grants	21,614
84.367	Supporting Effective Instruction State Grants	14,437
10.560	State Administrative Expenses for Child Nutrition	12,308
84.002	Adult Education - Basic Grants to States	5,415
10.559	Summer Food Service Program for Children	3,468
10.558	Child and Adult Care Food Program	3,085
84.196	Education for Homeless Children and Youth	2,561
84.377	School Improvement Grants	1,736
		<u>498,117</u>
<u>Others:</u>		
N/A	Schoolwide	9,700,158
N/A	School Food Authority	351,467
N/A	Consolidated Funds	139,884
		<u>10,191,509</u>
N/A	State Funds	<u>4,892,239</u>
	Total others	<u>15,083,748</u>
Total payments - 2018		<u>\$ 15,581,865</u>

# Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)

## Schedule of Findings and Questioned Costs Year Ended June 30, 2018

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Questioned costs related to this situation amount to \$498,117.

A portion of the \$10,191,509 included in other payments regarding Schoolwide, School Food Authority and Consolidated Funds, relates to federal programs. Questioned costs related to these federal programs included within this balance are not determinable.

### *Criteria:*

2 CFR section 200.53 (b) establishes that an improper payment includes any payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), any payment that does not account for credit for applicable discounts, and any payment where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper.

### *Cause:*

Management does not maintain effective monitoring controls to ensure proper documentation is retained that evidence the propriety of payroll payments. Management does not have effective controls to monitor payroll records once the payments are processed by the Puerto Rico Treasury Department.

### *Effect:*

The cash disbursements presented in the audited Statement of Cash Receipts and Disbursements for the year ended June 30, 2018 may be overstated by \$15,581,865.

### *Questioned costs:*

\$ 279,700	CFDA 84.027	Special Education - Grants to States
110,222	CFDA 84.010	Title I Grants to Local Educational Agencies
43,571	CFDA 84.048	Career and Technical Education - Basic Grants to States
21,614	CFDA 84.173	Special Education Preschool Grants
14,437	CFDA 84.367	Supporting Effective Instruction State Grants
12,308	CFDA 10.560	State Administrative Expenses for Child Nutrition
5,415	CFDA 84.002	Adult Education - Basic Grants to States
3,468	CFDA 10.559	Summer Food Service Program for Children
3,085	CFDA 10.558	Child and Adult Care Food Program
2,561	CFDA 84.196	Education for Homeless Children and Youth
1,736	CFDA 84.377	School Improvement Grants
<u>\$ 498,117</u>		

### *Recommendation:*

We recommend that management strengthen its internal control to ensure that all cash disbursements are adequately supported and documents retained.

**Puerto Rico Department of Education  
(An Executive Agency of the Commonwealth of Puerto Rico)**

**Schedule of Findings and Questioned Costs  
Year Ended June 30, 2018**

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*Management response:*

Payroll information recorded in the PRDE accounting system arises directly from the Puerto Rico Treasury Department ("PRTD"). The information is received in a database which is replicated in the PRDE accounting system. Subsequently the information entered in the system is properly reconciled with the PRTD accounting system to validate the accuracy of the information.

Transactions included above are currently being evaluated by the PRTD and PRDE, in order to determine if in effect part of these balances are questionable. Any adjustment resulting from this matter must be analyzed and approved by the PRTD, since that agency is ultimately responsible for these transactions.

Contact persons:                      Osvaldo Guzmán López, Undersecretary of Administration

**Puerto Rico Department of Education**  
**(An Executive Agency of the Commonwealth of Puerto Rico)**

**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2018**

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Finding Number: 2018-002

Federal Programs: CFDA No. 45.310; Grants to States  
 CFDA No. 84.010; Title I Grants to Local Educational Agencies  
 CFDA No. 84.027; Special Education Cluster  
 CFDA No. 84.048; Career and Technical Education - Basic Grants to States  
 CFDA No. 84.367; Supporting Effective Instruction State Grants

*Category:*

Financial Statement Finding  
 Internal Control / Compliance

*Compliance Requirement:*

Allowable Costs / Cost Principles

*Condition:*

As part of our audit procedures, we obtained an accounts receivable listing and identified duplicated payments issued during the year ended June 30, 2018, distributed as follows:

<u>CFDA</u>	<u>Description</u>	<u>Receivable Balance</u>
<u>Federal Programs:</u>		
84.027	Special Education - Grants to State	\$ 40,239
84.010	Title I Grants to Local Educational Agencies	20,759
45.310	Grants to States	10,496
84.048	Career and Technical Education	7,164
84.367	Supporting Effective Instruction State Grants	4,887
		<u>83,545</u>
<u>Others:</u>		
N/A	Schoolwide	1,563,632
N/A	School Food Authority	88,186
N/A	Consolidated Funds	18,532
		<u>1,670,350</u>
N/A	State Funds	2,941,707
	Total others	<u>4,612,057</u>
Total duplicated payments - 2018		<u><u>\$ 4,695,602</u></u>

Accounts receivable arise from overpayments or merchandise returns to suppliers, improper salary payments, payments to employees without accumulated vacations or sick leave balances, and others. Accounts receivable are recorded in a subsidiary ledger when detected or identified. However, the expenditures in the related funds are reversed when amounts are actually collected. Accordingly, expenditures reported as federal financial assistance programs costs in the schedule of expenditures of federal awards include unallowable costs for those amounts that remain uncollected at the end of each year.

# Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)

## Schedule of Findings and Questioned Costs Year Ended June 30, 2018

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Questioned costs related to this situation amount to \$83,545.

A portion of the \$1,670,350 included in the accounts receivable balance relates to federal programs. Questioned costs related to these federal programs included within this balance are not determinable.

### *Criteria:*

34 CFR Section 80.22 (a) - Allowable costs, establish that grant funds may be used only for:

- i. The allowable costs of the grantees, subgrantees and cost-type contractors, including allowable costs in the form of payments to fixed-price contractors; and
- ii. Reasonable fees or profit to cost-type contractors but not any fee or profit (or other increment above allowable costs) to the grantee or subgrantee.

34 CFR Section 76.702 establishes that a state and a sub grantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for federal funds.

2 CFR Section 200.406 - Applicable credits, states that applicable credits refer to those receipts or reduction of expenditure type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect (F&A) costs. Examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the non-Federal entity relate to allowable costs, they must be credited to the Federal award either as a cost reduction or cash refund, as appropriate.

### *Cause:*

This situation is mainly caused by the fact that the PRDE's regional offices are not timely notifying about personnel terminations and/or contractors no longer working/contracted by PRDE.

### *Effect:*

The situation described above may result in payments to contractors and/or employees who are not working or performing duties directly related to the federal programs for which they are being paid.

Due to the significant amount of the federal funds received, PRDE could be exposed to significant disallowances from the grantors.

### *Questioned costs:*

\$	40,239	CFDA 84.027	Special Education - Grants to States
	20,759	CFDA 84.010	Title I Grants to Local Educational Agencies
	10,496	CFDA 45.310	Grants to States
	7,164	CFDA 84.048	Career and Technical Education - Basic Grants to States
	4,887	CFDA 84.367	Supporting Effective Instruction State Grants
<u>\$</u>	<u>83,545</u>		

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Schedule of Findings and Questioned Costs Year Ended June 30, 2018**

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### *Recommendation:*

PRDE shall develop an adequate system to prevent improper payments that later result in the account receivable balances.

### *Management response:*

PRDE has worked towards complying with this Federal requirement and has accomplished a lot through the recent years and continues to be engaged with the prioritization of resolving the issues noted within this finding.

Due to the fact that approximately 98% of the outstanding balance of accounts receivable relates to improper payroll payments, PRDE continues to work on the project for the implementation of an automated process that will prevent improper salary payments, overpayments and/or payments to employees without accumulated vacations or sick leave balances, among others. As the integration tests of this processes is coming to an end, PRDE expect to start phase one of implementation by installing the system around October 2019, and have it fully functional in the next fiscal year, primarily impacting central level employees and prospectively each and every regional office and schools.

PRDE's Human Resource Office has also developed and implemented a new policy of Time, Attendance and Tardiness, effective July 2019. That same month, during the Annual PRDE School Director's Convention, they coordinated and held an extensive training session about its applicability and severity to more than 900 school directors who will now be entrusted to transfer that knowledge among other employees of their respective schools. In relation to the timely collection of accounts receivable balances, Payroll and Finance units have begun working on revisions to existing procedures in order to: (a) promptly identify existing employees without accumulated vacation or sick leave balance; (b) calculate any overpayments; and (c) establish payment plans to collect balances owed through payroll deductions.

Regarding the questioned costs, the auditors were unable to specifically identify the underlying causes that led to each account receivable balance. As a result, PRDE is unable to validate whether the underlying causes of these accounts receivable balances represent violations of the Federal law, State law, or neither.

Contact persons:                      Osvaldo Guzmán López, Undersecretary of Administration  
   Evelyn Rodríguez Cardé, Director of Finance  
   Judith Parrilla Rivera, Accounts Receivable Supervisor

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

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**Finding Number: 2018-003**

Federal Programs: CFDA No. 45.310; Grants to States  
CFDA No. 84.048; Career and Technical Education - Basic Grants to States

*Category:*

Internal control / Compliance

*Compliance Requirement:*

Equipment and Real Property Management

*Condition:*

While obtaining our understanding of the state's policies and procedures in place at PRDE's Central Office and Public Schools in relation to property and equipment, we were informed that the required annual physical inventory has not been performed by the PRDE's Property and Equipment Division (the Property Division) during the last two years. In addition, we noted that property records do not include all elements required by the federal government, such as the percentage of federal participation in the cost of the property and the use and condition of the property.

As a result of not performing physical inventory and reconciliation procedures, the following matters were identified:

- During our audit procedures we noted that the list of disbursements from the PRDE for the year ended June 30, 2018 and the PRDE property records did not agree to properly reflect the acquisition of all property purchased during the year. Accordingly, PRDE failed to maintain a complete and accurate property records. In 70 instances we noted that property records were not in accordance with the list of disbursements resulting in a difference of \$317,894.
- We visited each location identified on PRDE's property records for the items selected for inspection and noticed that in three (3) instances of sixty-two (60) items selected, the form Property-in-Use (Form SC-1211), used to document the receipt/acquisition of equipment, was not available by the asset custodian for examination at the asset location school, as established by the policy. Subsequent to our visit to each location, forms were provided by the PRDE's Property Division at the PRDE's central offices for our examination.
- In eight (8) instances of one hundred and twenty-six (126) items, we noted that PRDE's property records were not updated to indicate the current custodian of the property.

A similar finding was reported last year as item 2017-006.

*Criteria:*

34 CFR Section 80.20 (b) (3) establishes that effective control and accountability must be maintained for all grant and sub grant cash, real and personal property, and other assets. Grantees and sub-grantees must adequately safeguard such property and must assure that it is used for authorized purposes. 34 CFR Section 80.32 (b) establishes that a state will use, manage, and dispose of equipment acquired under a grant by the state in accordance with state laws and procedures. 34 CFR Part 80.32 (d)(1) establishes that property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of federal participation in the cost of the property, the location, use and condition of the property and any ultimate disposition data including the date of disposal and sale price of the



# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

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property. 34 CFR Part 80.32 (d)(2) establishes that a physical inventory of the property must be taken and the results reconciled with the property records at least once every two years. 34 CFR Section 80.40 (a) states that grantees are responsible for managing the day-to-day operations of grant and sub grant supported activities. Grantees must monitor grant and sub grant supported activities to assure compliance with applicable federal requirements, and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity. Chapter VII of PRDE Procedures for the Control and Accounting of Property Manual establishes that property records should identify the purchase order, date, total cost, units, percentage of federal participation and account code of items acquired.

### *Cause:*

PRDE has limited personnel to cover the assigned tasks.

### *Effects:*

The lack of continuous monitoring procedures over property and equipment can result in inaccurate accounting records. In addition, the lack of a periodic physical inventory avoids the timely identification of federally acquired property and equipment no longer being used or not in working conditions. PRDE is exposed to the risk of possible unauthorized use, misappropriation and disposition of equipment due to the lack of internal controls and proper supporting accounting records.

### *Questioned Costs:*

Could not be determined.

### *Recommendation:*

We recommend management to complete the physical inventory procedures of the property as soon as possible. Results should be reconciled with the property records to ascertain completeness and accuracy and adjust differences, if any. The implementation of this procedure will help management to verify that property and equipment is being properly safeguarded and used solely for authorized purposes. Also, we recommend management to enforce the procedures being followed by the Property Division to mitigate the possible risks of misappropriation.

### *Management response:*

PRDE continues to be engaged with the prioritization of resolving the issues noted within this finding and the required annual physical inventory.

After performing significant modifications to the Asset Management Module in June 2017, we were hit by hurricanes Irma and María, causing a notorious delay in the timeline we had in place to perform assets and inventory reconciliations. As a result, the Property Management Office started the process of taking physical inventory in April 2018 and can now report a 95% of completion. The expected date to finalize the inventory taking is October 2019.

Besides the efforts of completing the physical inventory, PRDE is performing additional modifications to the Asset Management Module within the PRDE's Accounting System (SIFDE, acronym in Spanish) to present the percentage of federal participation in the cost of the property and the use and condition of the asset. Also, the improved Asset Management Module will allow PRDE to produce the annual SC795 report, which is required by the PR Treasury Department. We expect this enhancement to be in place by next fiscal year.

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PRDE will continue improving and reinforcing its internal controls to ensure that its Property Management Office complies with its own internal procedures, demonstrating that disbursements and property transactions comply with Federal Law, and applicable federal and state regulations. We are confident that the implementation of these measures will lead the Asset Management Office to continue minimizing the instances observed by the auditors in this finding.

Contact persons:                      Osvaldo Guzmán López, Undersecretary of Administration  
   Nilda Z. Morales Vázquez, Director of Asset Management and Property Division

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Finding Number: 2018-004

Federal Programs: CFDA No. 84.027, 84.173; Special Education Cluster

Category:

Internal Control / Compliance

Compliance Requirement:

Reporting

Condition:

In testing compliance with the requirements related to the eligibility for individuals of this program, we selected a random sample of thirty-six (36) participants from the Child Count Report Raw Data for the school year 2016-2017, including participating students up to December 31, 2017, submitted during fiscal year 2017-2018 to the Federal agency and noted the exceptions summarized below (some of the instances relates to internal control and others to both internal controls and compliance):

1. The following internal controls deficiencies were noted during our procedures:

<u>Description</u>	<u>Instances</u>
Initial evaluation form not performed within the 30 days of registration, as stated in PRDE special education written procedures.	1
Initial evaluation form not found in student file.	3
Initial eligibility determination form performed 60 days after participant registration, as stated in PRDE special education written procedures.	5
Initial eligibility determination form not found in student file.	1
Initial eligibility determination form not dated, as stated in PRDE special education written procedures.	1
Initial eligibility determination form not signed by required parties, as stated in PRDE special education written procedures.	1
Registration form not signed by required parties, as stated in PRDE special education written procedures.	3
Initial evaluation form dates do not agree among "Mi Portal Especial" (MiPE - program system from which child count report is derived) and registration form.	3

2. The following internal controls and compliance deficiencies were noted during our procedures:

<u>Description</u>	<u>Instances</u>
Individualized education program (IEP) form and supporting information related to the IEP for the relevant period of the report under examination (referenced above) not found in student file.	2
Triannual eligibility determination form nor analysis of existent information sheet for the relevant period of the report under examination (referenced above) not found in student file.	3
Parent (legal tutor) confirmed that student is not a participant of special education.	1

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

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A similar finding was reported last year as item 2017-009.

### *Criteria:*

Section 618 of the Individuals with Disabilities Education Act (IDEA) requires that each State submit data about children with disabilities, ages 3 through 21, who receive special education and related services under Part B of IDEA.

34 CFR sections 300.644 establishes that the State Educational Agency (SEA) may include in its report children with disabilities who are enrolled in a school or program that is operated or supported by a public agency, and that (a) Provides them with both special education and related services that meet State standards; (b) Provides them only with special education, if a related service is not required, that meets State standards; or (c) In the case of children with disabilities enrolled by their parents in private schools, counts those children who are eligible under the Act and receive special education or related services or both that meet State standards under §§300.132 through 300.144.

34 CFR Section 300.301 states that procedures for initial evaluation— (1)(i) Must be conducted within 60 days of receiving parental consent for the evaluation; or (ii) If the State establishes a timeframe within which the evaluation must be conducted, within that timeframe; and (2) Must consist of procedures— (i) To determine if the child is a child with a disability under §300.8; and (ii) To determine the educational needs of the child. The timeframe does not apply to a public agency if— (1) The parent of a child repeatedly fails or refuses to produce the child for the evaluation; or (2) A child enrolls in a school of another public agency after the relevant timeframe in paragraph (c)(1) of this section has begun, and prior to a determination by the child's previous public agency as to whether the child is a child with a disability under §300.8.

34 CFR Section 300.303(b)(1) establishes that a reevaluation (1) May occur not more than once a year, unless the parent and the public agency agree otherwise; and (2) Must occur at least once every 3 years, unless the parent and the public agency agree that a reevaluation is unnecessary.

34 CFR Section 300.323 states that at the beginning of each school year, each public agency must have in effect, for each child with a disability within its jurisdiction, an Individualized Education Program (IEP).

The Special Education Manual Procedures of the PRDE (Internal controls manual), approved on September 3, 2005, is documented in accordance to the Code of Federal Regulation referenced above.

### *Cause:*

Management does not maintain adequate documentation controls supporting the accuracy of the data reported. Required procedures are not being done within the required timeframe.

### *Effects:*

The above condition may cause that an ineligible individual receive benefits from the program, causing incorrect data reported. Also, grant award, which is based on child count reported, may be incorrectly calculated.

### *Questioned Costs:*

Could not be determined.

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### *Recommendation:*

Although management was able to provide evidence to substantiate they had taken corrective actions to achieve the compliance objectives on most of the conditions stated above, we recommend to keep improving procedures and practices by emphasizing the importance of adequate monitoring and documentation controls to the personnel responsible for the reporting procedures in order to ensure the accuracy and completeness of data reported. A good practice will be to periodically test a sample of the population of child count to be reported in the child count, not only to ascertain that only eligible individuals are included within the report, but also to determine that eligibility procedures are performed in accordance with applicable laws, regulations and PRDE stated policies.

### *Management response:*

The Puerto Rico Department of Education (PRDE) does not agree with the totality of the instances included in the finding issued by the auditors, nor with the established effect; or that PRDE is not providing comments on the specific instances identified in this answer. Likewise, we have noted that, within the finding presented, the year of the report on the child count is not the same year for which the different data and forms were reviewed. This has been clarified in the various meetings that have been held with the auditors, but the auditors have maintained their position to document the incorrect information while auditing the PRDE. The child count provided to the auditors is 2017-2018, corresponding to the audit period.

On the other hand, during the audit, the auditors were fully orientated on the dates on which a report of the child count is submitted. In addition, the director of the data area for the Special Education program and who is responsible for preparing this report, clarified that the report delivered would correspond to the audit year, given that it was performed and submitted at some point during the same year. Independently, the auditors have documented the information included in this report for the year 2016-17, due to the cut-off date of this report, which is during this first half of the 17-18 audit year (December 2017). As explained to the auditors, the aforementioned date corresponds to the cut off of the data, as required for the said report.

In the same way, PRDE wants OSEP to know that given the cut-off date for this report (child count) which was December 2017, the auditors did not accept any evidence or document on concerning eligibility, services and compliance, among others, from the second school semester and within the audit period (they did not accept information and documents from January 1<sup>st</sup> to June 30, 2018). By not accepting this valid and reliable data, PRDE was unable to demonstrate compliance, cutting the date of the audit unilaterally in half.

Additionally, the appropriate responses for each of the instances in this document have been provided to the auditors, including the evidence of compliance for each. PRDE has held meetings with the auditors and the managers of the external firm performing the audit, to raise the program's concern with the issue presented. The program personnel made every effort to talk about the concerns with these tests and the determinations made by the auditors around Special Education procedures.

Also, the Program Manual was provided to the auditors, where the dates on which the various processes must be fulfilled with the students of the program are well established in order to comply. Likewise, auditors were given access and training to search the Mi Portal Especial (MiPE) system, in case they needed to look for any additional documents and/or dates, since the program has worked hard with the digitalization of processes, evidences and records, and although not yet fully implemented, both files (the physical and digital) complement each other.

We emphasize that the program has worked hard in the area of compliance to achieve a higher percentage of execution according to local and federal applicable regulations. Moreover, in a very transparent way, during the meetings held with the auditors, PRDE accepted that for some of the instances, the PRDE had no comments, supporting

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documentation, Program Determination Letter (PDL) or evidence that could eliminate the instance. However, the auditors maintained their position to not revise the information and documentation for these other instances.

As such, PRDE will proceed to answer each of the instances indicated as either internal control and/or compliance issues. In addition, PRDE is informing OSEP that we have the evidence readily available to be examined by any officer that requests it.

### **Internal control deficiencies:**

**Instance 1: In one case, the auditors indicated that the initial evaluation form was not performed within 30 days of registration.**

The program understands that in order to test internal controls, the sample the auditors select must include students who enrolled in Special Education during the audit period and up to 2 years prior, when it is required to perform the triennial evaluation. For this case, the student's file was verified, and it was found that this student's registration was 15 years ago. The student was registered on November 2002.

Since the student came from Head Start, the evaluation considered is from June 18, 2002, prior to the registration date because it was performed at the Head Start and it was valid upon arrival to the federal program to register to receive services. Beyond that, the student's triannual was verified too, which is the requirement to be validated and it was found that the 2017 triannual eligibility determination had been made. The explanations and supporting document were provided to the auditors. However, the auditors determined to not consider our argument nor supporting documentation, but the program is convinced that is in compliance. The supporting evidence is available for review upon request.

**Instance 2: In three cases, the auditors indicated that the initial evaluation form was not found in student file.**

In order to test the initial evaluation requirement, they must select students who enrolled in the program during the audit period 17-18 up to students that were enrolled 2 years prior. Additionally. This argument applies to all initial procedures.

For this first case, the record was re-built from 2017 forward to ensure services to the eligible student. Therefore, the original documents are not in the file. However, the current triannual eligibility determination is proof that the determination was made again and the participating student remains eligible, so there is no harm in this case.

For the second case, the current triannual eligibility determination is proof that the processes are being performed and that the participating student remains eligible. As such, there is no harm in this case.

In relation to the last case, this student graduated in May 2018 (within the audit period). Since they exited from the program, the program is no longer responsible for conducting a tri-annual evaluation and/or determination.

**Instance 3: On five cases, the auditors indicated that the initial eligibility determination form was performed 60 days after participant registration.**

For this instance, the program stands firm in their argument where to prove this criterion, students enrolled in the program in the same year of auditing, or up to 2 previous years, must be selected. In addition, we gave the auditors the PDLs of January 4, 2015 and January 27, 2016, where OSEP did not sustain out-of-time eligibility determination and the initial evaluation of more than 60 days as findings.

For the auditors finding (regarding the timeliness), there is a proof that the eligibility determination of these students was made, so they must continue with the services they are eligible for. The PRDE can't return to the initial determination of the students to make them in time, however, it can perform them after identifying that they are

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necessary and correcting these instances before the auditors identify them.

**Instance 4: In one case, the auditors indicated that the initial eligibility determination form was not found in student file.**

Again, for this instance we stand firm in our argument that to test this criterion, students enrolled in the program within the same year of auditing or up to 2 previous years must be selected.

On the other hand, for this specific case, even though the student's initial documents are not on the record, the required documents for the audit period are found and the processes are properly documented within the MiPE system. Likewise, this is one of the cases where the auditors did not accept the evidence from PRDE, where it shows that the corresponding process was carried out on time and within the audit period. Eligibility determination is dated 2018, so it is in effect and the program is in compliance.

**Instance 5: In one case, the auditors indicated that the initial eligibility determination form was not dated.**

For this case, the date of the initial evaluation was validated through minutes. The initial evaluation was carried out on February 10, 2012. In addition, in the PDL of January 4, 2015, OSEP sustain findings related to eligibility determinations that were not signed nor dated. The document provided was on the student record and the program made efforts to deliver it to the auditors, in conjunction with the PDLs. However, the evidence provided by PRDE was not considered by the auditors.

**Instance 6: In one case, the auditors indicated that the initial eligibility determination form not signed by the required parties.**

In this case, the auditors were provided with the PDL of January 4, 2015, where OSEP does not sustain findings related to the lack of signature or date in the eligibility determination. The document was on the record and the program made the efforts to submit it to the auditors, in conjunction with the PDLs, but they did not consider them. The evidence of the document is on file, since the program carried out the corresponding process in 2015. Since this student graduated in 2018, the program is no longer responsible for making the triannual eligibility determination during that same year.

**Instance 7: In three cases, the auditors indicated that the registration form is not signed by the required parties.**

According to the PDL of September 30, 2014, OSEP does not sustain a finding on the absence of the registration form in the participant's record. The purpose of this form is to complete all the student's initial information and begin the corresponding formalities so that eventually, if eligible, they get the services according to their particular needs. This document does not guarantee, establish services, or affect program reporting.

**Instance 8: In three cases, the auditors indicated that the initial evaluation form dates do not agree among "MiPE" (from which the child count is derived).**

For these cases, it was broadly discussed in the meetings that the program has not moved to the digital record entirely and in case of inconsistencies, the physical record prevails. These identified cases are cases of conversion from another system to MiPE. Cases identified with inconsistency at the date of initial evaluation (between physical and digital records) do not affect eligibility, services, nor reporting, as the initial evaluation indicator is reported annually.

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### **Internal controls and compliance deficiencies:**

**Instance 1: For two cases, the auditors indicated that the IEP form and supporting information related to the IEP for the relevant period of the report under examination was not found in student file.**

The program wants to clarify that in these instances the auditors refer to the alleged fact that the IEPs of these students and the progress reports were not on the record. However, the program has found the following information.

For the first instance, the record had 2016-2017 and 2017-2018 intervention plans. Intervention plans show that the student was offered services. In addition, the student has IEPs dated April 12, 2018. The program identified the need and took the corrective action of developing the IEP, prior to the audit period. However, the auditors did not take this evidence into consideration because they were for the second semester. In addition, this case has evidence of the progress report on the record.

For the second instance, the student has on file intervention plans 16-17 and 17-18, which show that the required service was given to the student. In addition, the case has evidence of the progress report. In addition, since the student exited the program, it is no longer necessary to have an IEP in place nor a Services Plan (because he/she is from private school). In addition, the PDL of 4 June 2015 indicates that OSEP does not sustain a finding regarding lack of signatures and/or dates in the IEP certification.

On the other hand, the document titled IEP Certification is an administrative one, not required for eligibility nor provision of student services.

**Instance 2: In three cases, the auditors indicated that the triannual eligibility form nor analysis of existent information sheet for the relevant period of the report under examination was not found.**

For one of the cases presented, information was found to eliminate this preliminary finding. In the first, we found and submitted the triannual determination of 2017-18, which is in force. The program identified the need to conduct the triannual of this student and carried out its corrective action processes accordingly to comply, during the covered audit period. Moreover, for this instance, the PDL of 4 January 2015 indicates that OSEP did not sustain findings for not completing a triannual evaluation in the required timeframe.

In the second case, the student record has the 2014 Eligibility Determination and Existing Information Analysis from 2018. However, for this case and the third one, (SIE numbers 24097278 and 24543521) where the updated triannual evaluations were not found in the respective files and the PRDE confirmed that they have not been completed, PRDE is providing follow up to the schools to make sure that the applicable evaluations are performed as soon as possible and included in the student's respective files.

**Instance 3: Parent (legal tutor) confirmed that student is not participant of special education.**

In this case, the auditors allege that the parents of the child indicated that the child was not a participant in the Special Education program. However, the student's IEP was in place for the year of audit and, in addition, the student's Special Education teachers certified that IEP accommodation and services were provided to this student. Therefore, the program understands that this is sufficient evidence to refute the information provided by the parents.

Contact persons: Eliezer Ramos Parés, Auxiliary Secretary for Special Education  
Daiber Carrión Muñoz, Compliance Director  
Irving Feliciano Pulliza, Data Manager  
María del Carmen Cruz Dávila, Monitoring Unit Director



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*Auditors rebuttal to PRDE's management response:*

We considered PRDE's response but did not change our finding and recommendation. During our audit procedures over the reporting compliance requirement, we validated the Child Count Report Raw Data submitted during the year under audit. This report was due in April 2018 containing child data count up to December 31, 2017. As such, during our examination of participant's files, we inspected existing evidence to support a valid participant as of the report cut-off date (December 31, 2017). Any evidence produced subsequent to December 31, 2017, is considered a remediation or corrective action; however, it represents internal controls and or compliance deficiencies, as applicable, and as stated in the condition above. We maintained our position that PRDE should reinforce its internal procedures to ascertain that the report submitted is accurate; thus, including those children who are eligible under Part B of IDEA for the corresponding period reported.

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Finding Number: 2018-005

Federal Programs: CFDA No. 45.310, Grants to States  
CFDA No. 84.002, Adult Education - Basic Grants to States  
CFDA No. 84.007, 84.033, 84.063 - Student Financial Aid Cluster  
CFDA No. 84.027, Special Education – Grants to States  
CFDA No. 84.048, Career and Technical Education - Basic Grants to States  
CFDA No. 84.367, Supporting Effective Instruction State Grants

Category:

Internal Control / Compliance

Compliance Requirement:

Cash Management

Condition:

The above programs receive funds under the advance cash management method. During our compliance testing, we identified the following deficiencies:

- In three (3) instances of four hundred and twenty-five (425) disbursements selected for testing, the federal funds deposited to PRDE's account were disbursed after the required time frame of three (3) business days of their availability. A similar finding was reported last year as finding 2017-012.

The exceptions noted under each program during the performance of our tests were as follows:

**CFDA No. 84.002, Adult Education - Basic Grants to States**

Voucher Number	Check Number	Check Date	Deposit Date	Days over 3 Day Limit	Amount
806643	158104	1/8/2018	12/29/2017	3	\$ 45,925.56

**CFDA No. 84.367, Supporting Effective Instruction State Grants**

Voucher Number	Check Number	Check Date	Deposit Date	Days over 3 Day Limit	Amount
847762	179433	6/12/2018	2/7/2018	86	\$ 18,115.01

**CFDA No. 84.048, Career and Technical Education - Basic Grants to States**

Voucher Number	Check Number	Check Date	Deposit Date	Days over 3 Day Limit	Amount
815928	410	3/26/2018	3/19/2018	2	\$ 690.50

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- In testing compliance and internal control over the cash management requirement for Student Financial Aid cluster the auditors selected a sample of eight (8) draw-downs out of thirty-four (34) draw requests during FY 2017-18 in the G5 system and noted on ninety (90) payments out of 2,952 payments within the eight (8) draws selected, that these were disbursed after the required time frame of three (3) business days of their availability.

**CFDA No. 84.007, 84.033, 84.063 - Student Financial Aid Cluster**

<b>Voucher Number</b>	<b>Check Number</b>	<b>Check Date</b>	<b>Deposit Date</b>	<b>Days over 3 Day Limit</b>	<b>Amount</b>
IP006924	00182662	6/26/2018	6/12/2018	7	\$ 1,715.00
IP007191	00182155	6/26/2018	6/12/2018	7	2,365.00
IP007134	00186491	6/26/2018	6/12/2018	7	1,785.00
IP007392	00182676	6/26/2018	6/12/2018	7	2,765.00
IP007390	00193259	6/26/2018	6/12/2018	7	2,110.00
IP007380	00186501	6/26/2018	6/12/2018	7	2,200.00
IP007378	00186512	6/26/2018	6/12/2018	7	2,165.00
IP007375	00193263	6/26/2018	6/12/2018	7	1,175.00
IP007229	00189912	6/26/2018	6/12/2018	7	2,395.00
IP007226	00182668	6/26/2018	6/12/2018	7	2,205.00
IP007100	00182676	6/26/2018	6/12/2018	7	2,845.00
IP006978	00190399	6/26/2018	6/12/2018	7	2,260.00
IP007170	00189917	6/26/2018	6/12/2018	7	2,500.00
IP007056	00189889	6/26/2018	6/12/2018	7	2,440.00
IP007010	00190092	6/26/2018	6/12/2018	7	2,335.00
IP007085	00182274	6/26/2018	6/12/2018	7	2,515.00
IP007082	00182668	6/26/2018	6/12/2018	7	2,485.00
IP007374	00189910	6/26/2018	6/12/2018	7	2,180.00
IP007213	00193255	6/26/2018	6/12/2018	7	2,330.00
IP007160	00186487	6/26/2018	6/12/2018	7	2,500.00
IP007156	00193261	6/26/2018	6/12/2018	7	2,470.00
IP007155	00189902	6/26/2018	6/12/2018	7	2,515.00
IP007334	00182697	6/26/2018	6/12/2018	7	1,780.00
IP007069	00182155	6/26/2018	6/12/2018	7	2,455.00
IP007068	00193266	6/26/2018	6/12/2018	7	2,455.00
IP007067	00193261	6/26/2018	6/12/2018	7	2,455.00
IP007061	00189900	6/26/2018	6/12/2018	7	2,455.00
IP006944	00186487	6/26/2018	6/12/2018	7	1,865.00
IP007349	00186690	6/26/2018	6/12/2018	7	2,215.00
IP006942	00189902	6/26/2018	6/12/2018	7	1,865.00
IP007325	00182663	6/26/2018	6/12/2018	7	2,245.00
IP007352	00189905	6/26/2018	6/12/2018	7	2,200.00
IP007177	00189904	6/26/2018	6/12/2018	7	2,285.00
IP007122	00182274	6/26/2018	6/12/2018	7	2,330.00
IP007116	00182655	6/26/2018	6/12/2018	7	2,540.00
IP007027	00182667	6/26/2018	6/12/2018	7	2,365.00
IP007146	00189891	6/26/2018	6/12/2018	7	2,405.00
IP006896	00186499	6/26/2018	6/12/2018	7	550.00
IP007148	00193257	6/26/2018	6/12/2018	7	2,485.00
IP007343	00186511	6/26/2018	6/12/2018	7	2,765.00

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<b>Voucher Number</b>	<b>Check Number</b>	<b>Check Date</b>	<b>Deposit Date</b>	<b>Days over 3 Day Limit</b>	<b>Amount</b>
IP007150	00186514	6/26/2018	6/12/2018	7	2,425.00
IP007340	00186705	6/26/2018	6/12/2018	7	1,765.00
IP007337	00182824	6/26/2018	6/12/2018	7	2,200.00
IP007336	00186652	6/26/2018	6/12/2018	7	2,260.00
IP007013	00182822	6/26/2018	6/12/2018	7	2,335.00
IP007324	00190028	6/26/2018	6/12/2018	7	2,290.00
IP007322	00186708	6/26/2018	6/12/2018	7	2,260.00
IP007321	00182690	6/26/2018	6/12/2018	7	2,765.00
IP007318	00186522	6/26/2018	6/12/2018	7	2,335.00
IP007006	00186692	6/26/2018	6/12/2018	7	2,290.00
IP007003	00186587	6/26/2018	6/12/2018	7	2,290.00
IP007002	00189964	6/26/2018	6/12/2018	7	2,290.00
IP007277	00189914	6/26/2018	6/12/2018	7	1,220.00
IP007272	00190092	6/26/2018	6/12/2018	7	2,335.00
IP007271	00182660	6/26/2018	6/12/2018	7	2,290.00
IP007270	00193268	6/26/2018	6/12/2018	7	2,225.00
IP007263	00193250	6/26/2018	6/12/2018	7	2,320.00
IP007256	00182654	6/26/2018	6/12/2018	7	2,255.00
IP007313	00186587	6/26/2018	6/12/2018	7	2,290.00
IP007311	00182670	6/26/2018	6/12/2018	7	1,515.00
IP007307	00186502	6/26/2018	6/12/2018	7	2,290.00
IP006933	00186690	6/26/2018	6/12/2018	7	1,805.00
IP006932	00182655	6/26/2018	6/12/2018	7	1,805.00
IP006930	00189917	6/26/2018	6/12/2018	7	1,790.00
IP007303	00182674	6/26/2018	6/12/2018	7	730.00
IP007300	00186508	6/26/2018	6/12/2018	7	2,830.00
IP007299	00189911	6/26/2018	6/12/2018	7	2,830.00
IP007294	00182666	6/26/2018	6/12/2018	7	2,290.00
IP007293	00189964	6/26/2018	6/12/2018	7	2,290.00
IP007289	00189922	6/26/2018	6/12/2018	7	2,830.00
IP007286	00189996	6/26/2018	6/12/2018	7	1,780.00
IP007044	00189912	6/26/2018	6/12/2018	7	2,395.00
IP007043	00182697	6/26/2018	6/12/2018	7	2,395.00
IP007039	00182674	6/26/2018	6/12/2018	7	2,395.00
IP006920	00182652	6/26/2018	6/12/2018	7	1,715.00
IP006918	00186491	6/26/2018	6/12/2018	7	1,275.00
IP007418	00186506	6/26/2018	6/12/2018	7	2,065.00
IP007245	00182662	6/26/2018	6/12/2018	7	2,335.00
IP007033	00182683	6/26/2018	6/12/2018	7	2,365.00
IP006912	00193255	6/26/2018	6/12/2018	7	1,200.00
IP006904	00189905	6/26/2018	6/12/2018	7	1,155.00
IP007404	00189990	6/26/2018	6/12/2018	7	2,110.00
IP007234	00182652	6/26/2018	6/12/2018	7	2,815.00
IP007230	00189889	6/26/2018	6/12/2018	7	405.00
IP006973	00193349	6/26/2018	6/12/2018	7	2,245.00
IP006970	00182665	6/26/2018	6/12/2018	7	2,245.00
IP006969	00189906	6/26/2018	6/12/2018	7	2,245.00
IP007396	00182669	6/26/2018	6/12/2018	7	2,080.00
IP007360	00186499	6/26/2018	6/12/2018	7	2,150.00
IP007208	00182782	6/26/2018	6/12/2018	7	2,380.00
					<b>\$ 195,165.00</b>

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- In twelve (12) instances of four hundred and twenty-five (425) disbursements selected for testing, we identified that check clearance date was several days after being issued as further detailed below. Management was unable to prove when the checks were actually released to its intended recipients since checks are delivered by the Puerto Rico Treasury Department. The time elapsed for check clearance may be caused by delays in the deposits made by the supplier, vendor or sub-recipient or by internal delays in the processing of the payment. This deficiency is considered an internal control finding.

The exceptions noted under each program during the performance of our tests were as follows:

**CFDA No. 45.310, Grants to States**

<b>Voucher Number</b>	<b>Check Number</b>	<b>Check Date</b>	<b>Check Clearance Date</b>	<b>Days over 30 Days</b>	<b>Amount</b>
18AP0915	147571	7/20/2017	8/22/2017	33	\$ 2,800.00

**CFDA No. 84.002 Adult Education – Basic Grants to States**

<b>Voucher Number</b>	<b>Check Number</b>	<b>Check Date</b>	<b>Check Clearance Date</b>	<b>Days over 30 Days</b>	<b>Amount</b>
18AP1489	147551	7/20/2017	8/25/2017	36	\$ 211.65
860001	197207	6/28/2018	9/4/2018	68	1,690.18
806643	158104	1/8/2018	3/1/2018	52	45,925.56
					\$ 47,827.39

**CFDA No. 84.048, Career and Technical Education - Basic Grants to States**

<b>Voucher Number</b>	<b>Check Number</b>	<b>Check Date</b>	<b>Check Clearance Date</b>	<b>Days over 30 Days</b>	<b>Amount</b>
18AP3294	148992	8/3/2017	9/5/2017	33	\$ 1,053.24
802263	154470	11/13/2017	12/20/2017	37	1,400.00
799067	153817	11/1/2017	12/5/2017	34	589.97
832896	1845	5/7/2018	12/12/2018	219	1,312.00
817056	482	3/28/2018	12/11/2018	258	213.01
					\$ 4,568.22

**CFDA No. 84.367, Supporting Effective Instruction State Grant**

<b>Voucher Number</b>	<b>Check Number</b>	<b>Check Date</b>	<b>Check Clearance Date</b>	<b>Days over 30 Days</b>	<b>Amount</b>
806160	157702	12/26/2017	1/29/2018	34	\$ 50.00
810163	160690	2/1/2018	5/2/2018	90	2,797.53
847762	179433	6/12/2018	8/7/2018	56	18,115.01
					\$ 20,962.54

# Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)

## Schedule of Findings and Questioned Costs Year Ended June 30, 2018

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The above program receives funds under the reimbursement cash management method. During our compliance testing, we identified the following deficiencies:

- In two (2) instances of four hundred and twenty-five (425) disbursements selected for testing, the federal funds were deposited to PRDE's account prior to the date of the reimbursement request.

The exceptions noted under each program during the performance of our tests were as follows:

### CFDA No. 84.027, Special Education - Grants to States

Voucher Number	Check Number	Check Date	Deposit Date	Days Prior to the Date of Reimbursement	Amount
840630	2665	5/25/2018	5/24/2018	1	\$ 2,794.00
806070	157609	12/26/2017	12/22/2017	4	22,957.00
					\$ 25,751.00

### Criteria:

34 CFR Section 80.20 (b) (7) establishes that procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees must be followed whenever advance payment procedures are used.

31 CFR Section 205.33 (a) establishes that a State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project.

Section 7.5 of the Cash Management Improvement Act Agreement establishes that the State shall identify for each check or warrant in the population: (1) the date the check was released for payment; (2) the date the check was debited from the State's account; and (3) the amount of the check.

2 CFR sections 200.305(b)(3) - The reimbursement payment method is the preferred payment method if (a) the non-Federal entity cannot meet the requirements in 2 CFR section 200.305(b)(1) for advance payment, (b) the Federal awarding agency sets a specific condition for use of the reimbursement or (3) if requested by the non-Federal entity. For grants and cooperative agreements to non-Federal entities that are paid on a reimbursement basis, supporting documentation shows that the costs for which reimbursement was requested were paid prior to the date of the reimbursement request.

### Cause:

The internal policies require that disbursements are issued seven (7) days after the voucher is prepared. This funding technique used by PRDE to minimize time elapsed between receipt of Federal funds and actual disbursement does not permit full compliance with this requirement. PRDE prepares the vouchers for payment and submits documentation to the Department of the Treasury for the preparation and release of the check to the supplier, vendor or subgrantee. PRDE does not control the date the check is eventually released to the supplier, vendor or subgrantee.

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Schedule of Findings and Questioned Costs Year Ended June 30, 2018**

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Monitoring controls over the federal funds received under the reimbursement methods are not being properly implemented, in order to make payments for which reimbursements was requested prior to the date of the reimbursement request, as established by the regulations.

### *Effects:*

Due to the significant amount of federal funds received, PRDE could be exposed to return of funds, significant administrative penalties or sanctions by the grantor, including the assessment of interest cost on funds that were not disbursed within the required time and disbursed prior to the reimbursement request.

### *Questioned Costs:*

None.

### *Recommendation:*

We recommend management to strengthen its internal procedures over the control, follow up and documentation of disbursements to minimize that funds are disbursed prior from the date the draw down is made and the time elapsed from the date the draw down is made to the release of the check to the supplier, vendor or subgrantee and to maintain an adequate trail of the dates related to check issuance and release.

Also, we suggest management to discuss the issue related to the Section 7.5 of the Cash Management Improvement Act Agreement with the Federal agency to evaluate how to manage this situation with the Puerto Rico Treasury Department.

### *Management response:*

PRDE disagrees with the auditors finding in part. PRDE has worked towards complying with this Federal requirement and has accomplished a lot through the recent years.

For all the instances that auditors identified funds were disbursed after the required time frame of three (3) business days of their availability, PRDE recognizes that even though on March 2017, PRDE developed a new process in its Accounting System (SIFDE, acronym in Spanish) to mostly automate the payment process, we were still in the process of full implementation of the corrective action plan to comply with the terms and conditions established in the Cash Management Improvement Act Agreement.

The process consists on that on a periodic basis, the Treasury Department enters in SIFDE the balance available for issuing payments. Authorized PRDE personnel then selects the payment vouchers that are required to be released and proceeds on processing the "unhold" vouchers. The payment cycle is processed and available for the Treasury Department approval. Once approved, PRDE proceeds with the check's submission to Hacienda for the corresponding printing. However, PRDE is performing specific testing over transactions not being covered by the abovementioned automated process.

On the other hand, PRDE is in the process of converting all payments to its suppliers, whenever possible, to the ACH method. This method is a safer way to disburse payments directly to the bank accounts of the suppliers and also facilitates the process of maintaining an audit trail of each transaction.

Near the date of these transactions noted by the auditors, the first disbursement tests were being carried out using the ACH method, however the SFA Cluster program had not yet modified its manual of procedures so, these transactions had to be reversed to then re-issue them by check, in compliance with the program's processes. Because PRDE cannot

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Schedule of Findings and Questioned Costs Year Ended June 30, 2018**

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make disbursements on a daily basis, and only on the day the Puerto Rico Treasury Department authorizes it, these transactions ended up in non-compliance with the 3-day term established by the USDE.

For the twelve instances where auditors identified that check clearance date was several days after being issued, PRDE reiterates that once checks are issued by PRDE, the release and final clearance dates for the disbursements are outside of the control of PRDE. However, we have discussed with the PR Treasury Department about the importance of this compliance requirement and we have been able to implement measures to reduce this type of instances. In compliance with federal requirements, for programs on an advance method, PRDE demonstrated it has established procedures to minimize the time elapsed between the drawdown of federal funds, and the disbursement of check payments.

For the instances where auditors identified that check clearance was several days after being issued, PRDE has demonstrated to track at least 99% of the funds disbursed, from issuance to clearance, for a period of at least three months, as stated by Section 7.4 of the Treasury State Agreement (TSA). Also, through PRDE's actual accounting system (SIFDE), the agency is able to meet with the requirements stated under Section 7.5 of the TSA. SIFDE provides PRDE the date the check was released for payment, date the check was debited from the State's account and the amount of the check.

In compliance with federal requirements, for programs on an advance method, PRDE demonstrated it has established procedures to minimize the time elapsed between the draw-down of federal funds, and the disbursement of check payments.

PRDE continues to closely monitor all the payments issued and has constantly minimized the number of instances auditors find during their tests.

Contact person: Evelyn Rodríguez Cardé, Director of Finance



# Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)

## Schedule of Findings and Questioned Costs Year Ended June 30, 2018

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Finding Number: 2018-006

Federal Programs: CFDA No. 84.010; Title I Grants to Local Educational Agencies

Category:

Internal Control

Compliance Requirement:

Eligibility

Condition:

During our test of controls and compliance procedures for Eligibility for Area of Service Delivery, we visited five (5) Schoolwide schools to test eligibility of school attendance area. PRDE uses as poverty measure, socioeconomic data which is captured through SIE (Sistema Información Estudiantil) to make eligibility computations.

After examination of the underlying source data during our testing procedures, we noticed various instances, in all five schools visited, where the data entered on SIE did not match the physical forms maintained at the schools' records, which were completed by parents or in-charges. Accordingly, we concluded that the data entered on SIE did not represent accurate and complete student information. Furthermore, this is a repeated finding, therefore, the grandfather rule could be incorrectly considered because of prior year differences on forms entered on SIE.

Specific instances identified during our visits to the schools selected were as follows:

1. In four (4) of the five (5) schools visited, we noticed that total number of forms entered in SIE did not equal the total number of forms (Datos de unidad familiar) physically observed at schools.

#	Socioeconomic physically counted	Socioeconomic study entered on SIE	Difference
01.	314	647	(333)
02.	215	219	(4)
03.	356	371	(15)
04.	490	485	5

Also, from the five (5) schools we visited, we were able to physically examine 1,513 "Datos de unidad familiar" forms and noticed that a total of 205 or 14% were without parent/in charge signature.

2. In each of the five (5) schools visited, we randomly selected ten (10) forms "Datos de unidad familiar: Estudio Socio Económico Año 2016-2017" from each school considered for socioeconomic report to ensure that income on the form equals income entered on SIE. We found that from a total of fifty (50) forms examined and traced to SIE data, on seventeen (17) forms or 34% the income reported does not equal SIE data. Moreover, we found that eight (8) out of the fifty (50) or 16% forms examined, the number of family members included in the form were not equal to family members entered in SIE. Also, we found that in seven (7) forms of a total of 50 examined, we noted that date of birth on student files does not equal SIE data.

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## **Schedule of Findings and Questioned Costs Year Ended June 30, 2018**

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3. In one (1) of the five (5) schools visited, we noticed that three (3) of the ten (10) students examined in the school no socioeconomic physical form was available to review.
4. In one (1) of the five schools visited, the forms used for the socioeconomic study were not the one that corresponds to the year 2016 -2017. The version used did not required the school director signature.
5. Two of 1,513 physical forms of "Datos de Unidad Familiar" where archived at the student file.

A similar finding was reported last year as item 2017-018.

### *Criteria:*

34 CFR Section 76.731 establishes that a State and a subgrantee shall keep records to show its compliance with program requirements.

### *Cause:*

The exceptions indicated above were caused by inadequate filing and/or review of the eligibility forms to determine that the school complies with all the eligibility requirements; and deficiencies on record keeping and lack of monitoring controls.

### *Effects:*

PRDE could be exposed to administrative sanctions or cost disallowances since ineligible schools may be receiving funds under the program. Additionally, the ability to manage federal awards in compliance with the laws, regulations, and provisions of contracts and grant agreements could also be questioned.

### *Questioned Costs:*

Could not be determined.

### *Recommendation:*

We recommend PRDE to complete the eligibility verification process for those students for whom eligibility could not be determined because participants' files were missing or the documents evidencing eligibility were not available. Also, PRDE shall determine any liability to the grantor for any funds provided to ineligible schools resulting from the verification procedures, if any.

Additionally, in order to prevent the recurrence of the above conditions, PRDE shall emphasize that the personnel responsible for the determination of eligible participants fully understand the program regulations and requirements to ensure that the program's efforts are focused on the eligibility of the school.

### *Management response:*

During school year 2017-18, PRDE implemented an electronic pre-enrollment process, facilitating the flow of information and assuring a reduction of human error in the student and its family information gathering process. This electronic enrollment process is facilitating various components of the PRDE education system. It gives PRDE visibility to accurate information for real-time decision making, streamlining the internal processes of the Department of Education, among many other. This registration system allows parents to pre-enroll students online and register their child personal information.

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Schedule of Findings and Questioned Costs Year Ended June 30, 2018**

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This electronic process was implemented during FY 2017, therefore, PRDE was in the midst of the implementation of the electronic process when families completed the socioeconomic study data for school year 17-18, and they decided to complete this information by paper. PRDE used next school year pre-enrollment process to gather the parent's concerns about the new electronic procedures to enhance the platform. In addition, PRDE will hold an outreach campaign to ensure this process will be comfortable for all our families in the next school year's pre-enrollment process. For this purpose, the Central Level Planning Office, the Federal Affairs Office and the Title I Program Coordinator have begun making the correspondent updates to the system and it's required testing.

PRDE has been encouraging parents to complete the online enrollment process for the new Academic Year 2019-2020. Families will be able to use a computer at the school to begin the pre-enrollment process. However, paper forms will be available only for parents without computer or internet access, and School Directors will be responsible to submit any student information to the system. PRDE expects a reduction in this type of observation during next fiscal year.

Contact persons:           Yanin M. Dieppa Perea, Auxiliary Secretary for Federal Affairs  
                                  Ileana Cortés Burgos, Title I Program Coordinator

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**Finding Number: 2018-007**

Federal Programs: CFDA No. 84.007, 84.033, 84.063; Student Financial Aid Cluster

*Category:*

Internal control / Compliance

*Compliance Requirement:*

Matching, level of effort, earmarking

*Condition:*

In testing compliance with the requirements related to earmarking, we recalculated the proportion of compensation of students employed in community service activities to total Federal Work Study (FWS) allocations for the award year 2017-18 and amounted to \$11,137. The minimum amount (\$17,500) was not met by \$6,363.

In addition, when testing compliance of the matching requirement, PRDE was not able to provide supporting documentation from the accounting records to substantiate the assigned and disbursed amounts corresponding to each of the Technology Institutes related to the Federal Work Study Program (FWS) and for the Federal Supplemental Educational Opportunity Grants (FSEOG).

*Criteria:*

34 CFR section 675.18 (g) (1) establishes that an institution must use at least seven percent (7%) of the sum of its initial and supplemental FWS allocations for an award year to compensate students employed in community service activities.

2 CFR Section 200.306(b) states that for all Federal awards, any shared costs or matching funds and all contributions, including cash and third party in-kind contributions, must be accepted as part of the non-Federal entity's cost sharing or matching when such contributions meet, among other criteria's, that must be verifiable from the non-Federal entity records.

*Cause:*

Management does not maintain adequate monitoring controls over the minimum amounts being used for the purposes established by the regulations. Also, the lack of up-to-date information systems may lead to inadequate processing and monitoring of financial aid.

*Effects:*

The above conditions may cause that the federal public policy and the purpose of the regulations are not being met, and also results in improper monitoring of the management of Title IV funds granted.

*Questioned Costs:*

Could not be determined.

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Schedule of Findings and Questioned Costs Year Ended June 30, 2018**

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### *Recommendation:*

In order to prevent the recurrence of the above conditions, PRDE shall emphasize the importance of adequate monitoring controls to the personnel responsible for the work assignment to eligible students under the FWS program to ensure that sufficient work is conducted to community services. We also recommend to improve the generation of reports to allow the tracking of funds and to verify that matching levels are being appropriate as required by federal regulation.

### *Management response:*

PRDE acknowledge the importance of complying with the earmarking requirement and has historically complied with this requirement. However, since this finding corresponds to the time period in which the Island was severely damaged by Hurricanes Irma and Maria on September of 2017, the PRDE could not comply with this requirement. The hurricanes impact caused catastrophic damages leaving the institutions' academic and administrative buildings closed for an extended period of time. The administrative offices were relocated to an alternative site to start with the recovery efforts in order to bring the intuitions to a suitable condition to continue the academic courses. Therefore, PRDE's corrective action plan was significantly delayed.

Since PRDE did not use all of the funds initially allocated due to the situation mentioned above, PRDE performed the calculation using the total amount actually expended in the FWS program. Based on the FISAP report submitted by the PRDE to the USDE the minimum amount for Community Services Activities should be \$12,603 (which is 7% of the amount actually expended in the FWS program reported on the FISAP). The total community service earned compensation in Community Services Activities as stated in Section G of the 2017-18 FISAP was \$14,850. This amount exceeds the minimum amount of \$12,603, resulting in PRDE's compliance with the earmarking requirement.

Additionally, PRDE will continue to schedule trainings for all Financial Aid Personnel regarding FWS regulations and monitoring the Financial Aid Office operations and personnel, who are responsible for the administration of the FWS program. PRDE is committed to completing all corrective actions within a negotiated timeline in order to fully comply with all applicable federal requirements.

Contact persons: Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education  
Kelvin J. Pagán, Technical Education Program Director

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**Finding Number: 2018-008**

Federal Programs: CFDA No. 84.048; Career and Technical Education – Basic Grant to States

*Category:*

Internal control / Compliance

*Compliance Requirement:*

Level of Effort – Maintenance of Effort

*Condition:*

In testing compliance and internal control over Level of Effort – Maintenance of Effort requirement, we were provided with the entity's calculations corresponding to the fiscal year under audit. A State must maintain its level of fiscal effort on either an aggregate or per-student basis for prior year with respect to the second preceding year. We noted that the State did not meet the Level of Effort - Maintenance-of-Effort requirement, under either of the two available computation methods for compliance as required under the Section 311(b)(1)(A) of Perkins IV (20 USC 2391(b)(1)(A)).

For FY 2015-2016, State funds expenditures on PRDE accounting records for Career and Technical Education program amounted to \$74,793,937 and a certified enrollment of 37,180 students. The dollar amount assigned per student was of \$2,011.67.

For FY 2016-2017, State funds expenditures on PRDE accounting records for Career and Technical Education program amounted to \$70,797,819 and a certified enrollment of 37,180 students. The dollar amount assigned per student was of \$1,904.19.

Aggregated efforts decreased from FY2015-16 to FY2016-17 in the amount of \$3,996,118 or -5.34%. The State's per-student effort decreased by \$107.48 or -5.34%.

The student enrollment had no change, for a total of 37,180 both fiscal years; while the States aggregate expenditures decreased by \$3,996,118. Therefore, per-student effort was reduced.

Under the per-student basis computation, the States' total aggregate expenditures amounted to \$70,797,819 and should have amounted to \$74,793,937. The rate per student amounted to \$1,904 and should have been \$2,012.

The State's aggregate expenditures should amount to at least \$74,793,937, matching total States expenditures for the second preceding year (Fiscal Year 2015-16), in order to comply with Level of Effort – Maintenance-of-Effort under the aggregate basis of expenditures computation.

A similar finding was reported last year as item 2017-004.

*Criteria:*

A State must maintain its fiscal effort in the preceding year from State sources for career and technical education on either an aggregate or a per-student basis when compared with such effort in the second preceding year, as required under the Section 311(b)(1)(A) of Perkins IV (20 USC 2391(b)(1)(A)).

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## **Schedule of Findings and Questioned Costs Year Ended June 30, 2018**

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Section 311(b)(1)(A) of Perkins IV (20 USC 2391(b)(1)(A)) for Maintenance-of-efforts dictates that: (A) IN GENERAL. — Except as provided in subparagraphs (B) and (C), no payments shall be made under this Act for any fiscal year to a State for career and technical education programs or tech prep programs unless the Secretary determines that the fiscal effort per student or the aggregate expenditures of such State for career and technical education programs for the fiscal year preceding the fiscal year for which the determination is made, equaled or exceeded such effort or expenditures for career and technical education programs for the second fiscal year preceding the fiscal year for which the determination is made.

### *Cause:*

The Career and Technical Education Program did not implement nor maintain adequate controls by the personnel in-charge of performing duties and procedures necessary to comply with the Federal requirement of Level of Effort – Maintenance of Efforts.

### *Effects:*

The above condition could result in the reimbursement whether in whole or in part of Federal Awards granted to PRDE for Career and Technical Education program. Furthermore, noncompliance of Level of Effort – Maintenance of Effort, as a program requirement, could represent a reduction of available program funds, and could jeopardize the ability to obtain grant awards for Career and Technical Education program for future years.

### *Questioned Costs:*

Could not be determined.

### *Recommendation:*

We recommend management and program personnel to implement and maintain adequate procedures and processes, and proper documentation in order to assess and monitor compliance with Level of Effort – Maintenance of Effort, in a frequent and periodic manner. Management and personnel should also evaluate the effectiveness of the procedures to be implemented and assess whether such are appropriate to determine compliance periodically.

### *Management response:*

PRDE closely monitors compliance with the Maintenance of Effort (MOE) requirement. While PRDE has historically complied with this provision, in recent years, PRDE has experienced fluctuation in both federal and state funding for career and technical education. In addition, the Government of the Commonwealth of Puerto Rico has experienced challenging financial circumstances resulting in a decrease in the state budget for education for the past few years. Further, due to the current financial circumstances in Puerto Rico and the Financial Oversight and Management Board's ultimate control over State funding, and most recently the adverse impacts of Hurricanes Irma and Maria, Puerto Rico can no longer rely on the same sources to calculate MOE and needs to revise its methodology.

The U.S. Department of Education (ED or the Department) has been cognizant of PRDE's need to revise its MOE methodology since the 2015 single audit process. Specifically, on November 9, 2016 PRDE received a program determination letter (PDL) for the audit period July 1, 2014, through 2015. Finding 2015-011 noted that PRDE did not meet the MOE requirement under either of the two available computation methods. The Department sustained the auditors finding 2015-011 and requested: (1) revised policies and procedures to calculate MOE, and (2) spreadsheets showing actual expenditures for CTE for the two years in question.

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As of this date PRDE has not received any additional communication regarding this matter. However, PRDE received a technical assistance visit from OCTAE during May 15-16, 2019, related to the implementation of the new Perkins V Act.

During this visit, USDE requested additional information regarding the MOE state expenditures for FY's 2016-2017 and 2017-2018. USDE also indicated that it will provide this additional information to the Audit Division to finally conclude the resolution of these findings.

Contact person: Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education



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**Finding Number: 2018-009**

Federal Programs: CFDA No. 45.310; Grant to States

*Category:*

Internal control / Compliance

*Compliance Requirement:*

Reporting

*Condition:*

While performing our audit procedures over reporting compliance requirement, we noticed that the submission of the second quarter of the Quarterly Grant Accrual Reports and the State Program Report, required by the Institute of Museum and Library Services (IMLS), was submitted late by the State Library Program. The IMLS grant calendar cycle included at the Grant Award Guidance package indicates that the due date for the second quarter of 2018 of the Quarterly Grant Accrual Report was April 5, 2018 and the State Library Program submitted the report on April 6, 2018. Otherwise, the IMLS grant calendar cycle indicates that the due date for the State Program Report was December 29, 2017. As a result of an extension requested and approved, the new due date for the State Program Report was December 29, 2018 and the State Library Program submitted the report on December 30, 2018.

A similar finding was reported last year as item 2017-016.

*Criteria:*

As per Grant Award Guidance from IMLS, grantees must report grant accruals on a quarterly basis to IMLS and should submit this information no later than four (4) business days after the last day of the quarter. Each quarter's accrual must represent the total expenses for active grant awards that a grantee has incurred during the grant period but has not yet submitted to IMLS for reimbursement.

*Cause:*

Management failure to monitor compliance with established due date as required by IMLS grant calendar cycle.

*Effects:*

Failure to comply with grant requirements may result in the reimbursement of grant funds and may jeopardize any pending or future applications with IMLS.

*Questioned Costs:*

None.

*Recommendation:*

We recommend PRDE's management to emphasize the importance of submitting required grant documentation, including final narrative and financial reports, in a timely manner.

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Schedule of Findings and Questioned Costs Year Ended June 30, 2018**

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We recommend PRDE's management to strengthen its internal control procedures for the preparation, review and submission of required federal reports to ascertain compliance and timely filing.

We recommend PRDE's management to provide the corresponding training to the personnel of the program to allow that another person assumes the position, even temporarily. This will help provide backup experience for each position and an opportunity to review the procedures and practices being followed.

### *Management response:*

PRDE disagrees with this finding.

As a precautionary measure given the distressing situation Puerto Rico faced in the aftermath of Hurricanes Irma and Maria, DEPR proactively requested a highly comprehensive waiver for all reports that this program required for FY 17-18. This communication was made available to the auditors at the same time Quarterly Accrual reports and SPR report were shared.

Moreover, at the eventuality of the auditors' findings on the timeliness of our reports, DEPR entered into communication with the federal staff of the IMLS program, requesting clarification on the applicability of the waiver, to which they replied that PRDE has been very communicative in recent years around the quarterly accrual reports, and IMLS has no concerns about the timeliness factors cited during this time period.

PRDE wants to emphasize that the auditor's findings are based on a one-day late submission of each report. For the 2017 SPR Report, which was originally covered by the waiver we mentioned above, the extension granted was December 29, 2018. However, this calendar day is a Saturday. PRDE made an outstanding effort to have personnel available to submit this report on a timely basis.

PRDE understands that based on this information, this finding should not be sustained.

Contact persons:           Aixamar González Martínez, Auxiliary Secretary for Academic Affairs  
Mary J. Have Bermúdez, State Library Program Interim Coordinator

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**Finding Number: 2018-010**

Federal Programs: CFDA No. 84.007, 84.033, 84.063; Student Financial Aid Cluster

*Category:*

Internal control / Compliance

*Compliance Requirement:*

Reporting

*Condition:*

In testing compliance and internal controls over Reporting - Special Report - the auditors obtained copy of the Fiscal Operations Report and Application to Participate (hereafter, FISAP) for the Award Year 17-18, and traced material line items to PRDE's disbursement records. The auditors noted the following exceptions:

<b>FISAP Part, Line, Line description</b>	<b>Amount per FISAP</b>	<b>Amount per PRDE Records</b>	<b>Differences (Over/Under)</b>
Part II, Line 7 - Total number of undergraduate students 2017-18	2,923 students	1,973 students	950 students
Part II, Line 22 - Total tuition and fees for the award year July 1, 2017 to June 30, 2018	\$ 2,336,774	\$ 2,078,915	\$ 257,859
Part II Line 23 - Total Federal Pell Grant expenditures for the 2017-2018 award year	\$ 7,512,937	\$ 7,397,621	\$ 115,316
Part VI, Section A - Line 24, Column (c) - Total FSEOG recipients	657 recipients	643 recipients	14 recipients
Part VI, Section A - Line 24, Column (e) Total FWS recipients	288 recipients	352 recipients	(64) recipients

A similar finding was reported last year as item 2017-011.

*Criteria:*

As stated in 34 CFR Section 668.24(b)(2) an institution shall establish and maintain on a current basis (i) accurate financial records that reflect each Higher Education Act (HEA), Title IV program transactions; and (ii) general ledger control accounts and related subsidiary accounts that identify each Title IV, HEA program transaction and separate those transactions from all other institutional financial activity.

*Cause:*

Management does not maintain adequate monitoring controls over the accuracy of the data reported in the FISAP.

*Effects:*

Failure to provide accurate program and fiscal records to the Cognizant Agency could impair the PRDE's ability to effectively manage the SFA program funds.

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

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### *Questioned Costs:*

Could not be determined.

### *Recommendation:*

Management should establish adequate monitoring controls over the FISAP reporting process to ensure that information presented therein is accurate and consistent with PRDE disbursement records.

### *Management response:*

PRDE accepts this finding and will continue making efforts to prevent the recurrence of the above condition and as a corrective action plan PRDE will amend the FISAP for the fiscal year 2017-2018.

In addition, PRDE has established the following procedures:

1. Continuous training of all Financial Aid Office personnel regarding FISAP reporting and federal disbursement regulations, and
2. Monitoring the Financial Aid Office personnel, who are responsible for gathering the FISAP report data, to ascertain the appropriate procedures are being followed and that the required data is accurate and consistent with PRDE's disbursement records.

Also, as part of the corrective action plan, PRDE will coordinate a technical assistance visit from the US Department of Education to provide a seminar to all the institutions' personnel involved in the administration of Title IV funds. This seminar will help PRDE to prevent the recurrence of the above condition in the future.

In addition, PRDE is in the process of acquiring a completely new Student Information System with an integrated Financial Aid module. During the Fiscal Year 2016-2017, PRDE implemented a Student Information System (SIS) within the institutes and training was provided to all the personnel including those working with the SFA Program. The SIS implementation was supposed to improve the Title IV funds management and financial procedures. However, the results obtained did not meet PRDE's expectations. The new system will be fully implemented during the fiscal year 2019-2020.

USDE recently accepted the PRDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRDE partially disagrees. We expect that this process will allow PRDE to provide additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day-to-day operations to provide the most high-quality service and education to our students.

Contact persons: Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education  
Kelvin J. Pagán, Technical Education Program Director

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Schedule of Findings and Questioned Costs Year Ended June 30, 2018**

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**Finding Number: 2018-011**

Federal Programs: CFDA No. 84.007, 84.033, 84.063; Student Financial Aid Cluster

*Category:*

Internal control / Compliance

*Compliance Requirement:*

Special Tests and Provisions – Enrollment Reporting

*Condition:*

The PRDE did not submit the Enrollment Reporting Roster File updated to the National Student Loan Data System (NSLDS) and other information as required by federal regulations during fiscal year 2017-2018.

A similar finding was reported last year as item 2017-015.

*Criteria:*

Under the Pell grant and ED loan programs, institutions must complete and return within 15 days the Enrollment Reporting roster file [formerly the Student Status Confirmation Report (SSCR)] placed in their Student Aid Internet Gateway (SAIG) (OMB No. 1845-0002) mailboxes sent by ED via NSLDS (OMB No. 1845-0035). The institution determines how often it receives the Enrollment Reporting roster file with the default set at a minimum of every 60 days. Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS website. Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer.

A student's enrollment status determines eligibility for in-school status, deferment, and grace periods, as well as for the payment of interest subsidies to FFEL Program loan holders by ED. Enrollment Reporting in a timely and accurate manner is critical for effective management of the programs. Enrollment information must be reported within 30 days whenever attendance changes for students, unless a roster will be submitted within 60 days. These changes include reductions or increases in attendance levels, withdrawals, graduations, or approved leaves-of-absence.

*Cause:*

Management seems to have issues with access to the NSLDS website. However, no additional efforts are being performed by management to comply with the completion and timely submission of such report.

*Effects:*

Failure to prepare and submit the Enrollment Reporting roster file to the ED via the NSLDS website in a timely manner may affect the effective management of the program, and the eligibility of students to receive Title IV funds.

*Questioned Costs:*

Could not be determined.

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*Recommendation:*

The PRDE must perform reasonable efforts to resolve the issues encountered in submitting the Enrollment Reporting roster file, as well as designing and implementing monitoring controls to properly complete and submit the file within the stated deadlines.

*Management response:*

PRDE was not able to submit the Enrollment Reporting Roster File to the NSLDS during this fiscal year, therefore, concurs with this finding.

Due to the turnover of staff and recognizing the importance of technical knowledge that our personnel must receive, PRDE has requested to the US Department of Education a seminar which has already been coordinated to take place between September and November 2019. This seminar will be provided to all the institutions' personnel involved in the administration of Title IV funds, and the NSLDS Enrollment Reporting will be one of the topics that will be covered.

Also, PRDE is establishing standard monitoring processes to the Financial Aid Office personnel, who are responsible for the Enrollment Reporting, to ascertain the appropriate procedures are being followed and the reports are accurate and consistent with PRDE records reported to the National Student Loan Data System (NSLDS).

In addition, PRDE is in the process of acquiring a completely new Student Information System with an integrated Financial Aid module. During the Fiscal Year 2016-2017, PRDE implemented a Student Information System (SIS) within the institutes and training was provided to all the personnel including those working with the SFA Program. The SIS implementation was supposed to improve the Title IV funds management and financial procedures, however, the results obtained did not met PRDE's expectations. The new system will be fully implemented during the fiscal year 2019-2020.

Contact persons: Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education  
Kelvin J. Pagán, Technical Education Program Director

**Puerto Rico Department of Education  
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**Finding Number: 2018-012**

Federal Programs: CFDA No. 84.367: Supporting Effective Instruction State Grants  
CFDA No. 84.010, Title I Grants to Local Educational Agencies  
CFDA No. 84.287, Twenty-First Century Community Learning Centers

*Category:*

Internal Control

*Compliance Requirement:*

Level of Effort - Maintenance of Effort

*Condition:*

In testing compliance and internal controls over Level of Efforts - Maintenance of Efforts the auditors noted that management was not able to provide documentation supporting its calculation.

A similar finding was reported last year as item 2017-007.

*Criteria:*

As stated in 34 CFR section 299.5(a) any Local Educational Agency (LEA) receiving funds under an applicable program may receive its full allocation of funds only if the SEA finds that either the combined fiscal effort per student or the aggregate expenditures of State and local funds with respect to the provision of free public education in the LEA for the preceding fiscal year was not less than 90 percent of the combined fiscal effort per student or the aggregate expenditures for the second preceding fiscal year.

*Cause:*

Management does not maintain adequate documentation controls sustaining the maintenance of efforts calculation.

*Effects:*

Failure to properly document the Maintenance of Efforts requirements could represent a lead to doubts regarding the compliance of its requirements.

*Questioned Costs:*

Could not be determined.

*Recommendation:*

The PRDE must strengthen its documentation controls to sustain its Maintenance of Efforts calculation.

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

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### *Management response:*

PRDE disagrees with this finding.

During the course of the audit procedures performed by the external auditors, they requested all the necessary documentation to test the compliance of the Level of Effort of the ESEA programs, however, no documentation was requested to show that the agency's internal controls were properly implemented to ensure that every effort was made to meet the calculation requirements of this computation, to which this finding is related.

On August 2010, PRDE received a memo from the USDE with the instructions related on how PRDE should perform the processes of calculation of LOE. Specifically, further communications were established in order to gather more information and by email communications that were also supplied to the auditors, they stated that *"The attached letter from 2010 describes how the U.S. Department of Education (ED) annually determines whether States maintained fiscal effort in the preceding fiscal year under section 1125A(e) of the ESEA. [...] As a unitary system, this also means that Puerto Rico has met the LEA MOE requirement in section 8521 of the ESEA. Therefore, due to Puerto Rico's unitary status, it is not necessary for Puerto Rico independently to determine whether it maintained effort under sections 1125A(e) or 8521 of the ESEA because ED performs this function when it annually checks whether Puerto Rico (and other States) met the State MOE requirement in section 1125A(e)."*

Regarding the PRDE internal controls that are in place and have always been, on an annual basis, the PRDE Budget Office requests each of PRDE's Program/Office/Division its estimated and necessary state budget for the next fiscal year. Each Program/Office/Division realize an analysis of its needs and requests the state budget necessary to ensure its operations, continuity of service and overall compliance with the applicable state and federal requirements. The approval of this budget is subject to the availability of funds allocated to the PRDE by the Central Government. Each program conducts its due diligence to ensure compliance with applicable federal laws and to ensure continuity and implementation of federal programs assigned to DEPR, regardless of the additional compliance that the USDE performs by calculating the LOE by themselves.

Contact person: Yanín M. Dieppa Perea, Auxiliary Secretary for Federal Affairs



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**Finding Number: 2018-013**

Federal Programs: CFDA No. 10.559; Summer Food Service Program for Children

*Category:*

Internal control

*Compliance Requirement:*

Allowable Cost / Cost Principles

*Condition:*

In one (1) instance of four hundred and twenty-five (425) disbursements examined, no evidence was available to support that the payment was properly documented.

*Criteria:*

2 CFR section 200.333 establishes that financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. Federal awarding agencies and pass-through entities must not impose any other record retention requirements upon non-Federal entities.

*Cause:*

Management failed to comply with the minimum requirements established by the regulations.

*Effects:*

The above conditions could result in the reimbursement of federal funds to the grantors for those claims not properly supported.

*Questioned Costs:*

None.

*Recommendation:*

We recommend PRDE to maintain adequate documentation to support its expenditures.

*Management response:*

PRDE acknowledge the importance of keeping the necessary evidence of payments in compliance with the federal regulations. Although PRDE's management makes every effort to safeguard the information of the participants of each program, the onslaught of Hurricanes Irma and Maria severely impacted the agency's recordkeeping processes.

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The file related to this finding was in the agency's inactive files archive. When requested by the auditors for purposes of the test, the program identified that it corresponded to be among the files that were severely damaged by the impact of Hurricanes Irma and Maria.

Despite not being able to provide the particular year evidence that was requested by the auditors, this supplier remains active and in compliance with our program and subsequent years files were available for the auditors.

PRDE is evaluating how records could be protected in order to avoid this kind of situation in the future.

Contact person: Lourdes N. García Santiago, Interim Director of School Lunch Program

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**Finding Number: 2018-014**

Federal Programs: CFDA No. 84.007, 84.033, 84.063; Student Financial Aid Cluster

*Category:*

Internal Control / Compliance

*Compliance Requirement:*

Cash management

*Condition:*

During our audit procedures, we noted that PRDE does not have an adequate recordkeeping system that allows an easy audit trail of all transactions involving the processing of financial aid. In testing compliance and internal control over the cash management requirement for SFA cluster, the auditors selected a sample of eight (8) draw-downs out of 34 draw requests during FY 2017-18 in the G5 system and noted that on 19 payments out of 2,952 payments within our sample, that payment information (check number and check date) were not present in the records provided, as stated below.

Voucher Number	Check Number	Check Date	Deposit Date	Days over 3 Days Limit	Amount
IP005933	Not present	Not present	5/17/2018	Not determinable	\$ 2,225.00
IP005816	Not present	Not present	5/17/2018	Not determinable	2,440.00
IP005808	Not present	Not present	5/17/2018	Not determinable	1,790.00
IP005790	Not present	Not present	5/17/2018	Not determinable	2,440.00
IP005746	Not present	Not present	5/17/2018	Not determinable	2,365.00
IP005688	Not present	Not present	5/17/2018	Not determinable	2,500.00
IP005685	Not present	Not present	5/17/2018	Not determinable	2,515.00
IP005684	Not present	Not present	5/17/2018	Not determinable	2,170.00
IP005538	Not present	Not present	5/17/2018	Not determinable	2,575.00
IP006637	Not present	Not present	6/12/2018	Not determinable	1,730.00
IP006636	Not present	Not present	6/12/2018	Not determinable	1,125.00
IP006631	Not present	Not present	6/12/2018	Not determinable	1,736.38
IP006623	Not present	Not present	6/12/2018	Not determinable	1,895.00
IP006610	Not present	Not present	6/12/2018	Not determinable	2,470.00
IP006600	Not present	Not present	6/12/2018	Not determinable	2,320.00
IP006598	Not present	Not present	6/12/2018	Not determinable	2,335.00
IP006586	Not present	Not present	6/12/2018	Not determinable	2,575.00
IP006553	Not present	Not present	6/12/2018	Not determinable	2,275.00
IP006552	Not present	Not present	6/12/2018	Not determinable	2,350.00
					<u>\$ 41,831.38</u>

A similar finding was reported last year as finding 2017-013.

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### *Criteria:*

The Student Financial Assistance Handbook, (Vol. 2-Chapter 7), establishes that a school must keep comprehensive, accurate program and fiscal records related to its use of Financial Student Assistance ("FSA") program funds. Program and fiscal records must demonstrate the school is capable of meeting the administrative and fiscal requirements for participation in the FSA programs. In addition, records must demonstrate proper administration of FSA program funds and must show a clear audit trail for FSA program expenditures.

### *Cause:*

Lack of up-to-date information systems may lead to inadequate processing and monitoring of financial aid.

### *Effects:*

Failure to maintain disbursement records with the required level of detail makes difficult to perform monitoring procedures on the Title IV funds granted to students. Furthermore, since this is a repeated finding, PRDE may be subject to referral to Administrative Actions and Appeals Service Group (AAASG) for possible administrative sanctions.

### *Questioned Costs:*

None.

### *Recommendation:*

We recommend management to improve the maintenance of the student accounts to provide for a clear audit trail of sources and uses of federal funds and to allow for the tracing or tracking of funds to verify that such federal funds have not been used in violation of the restriction and prohibitions of applicable laws and regulations.

### *Management response:*

The PRDE recognizes the importance of taking steps to improve procedures. As part of the ongoing monitoring processes that have been developed to assess the performance of the Student Information System (SIS), SFA program staff identified that the system was duplicating a series of payments to students. Immediately after this situation was identified, all the duplicated payments were cancelled to ensure the proper use of the funds and prevent the payment process from being done incorrectly.

This situation is one of the examples by which, after thoroughly evaluating the performance of the SIS system, PRDE in accordance with USDE advice, decided to start the process of substituting the current system for a completely new system that will addresses this and other situations found during implementation phase of the SIS. The new system is expected to be fully implemented during the fiscal year 2019-2020.

USDE recently accepted the PRDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRDE partially disagrees. We expect that this process will allow PRDE to provide additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day-to-day operations to provide the most high-quality service and education to our students.

Contact persons: Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education  
Kelvin J. Pagán, Technical Education Program Director

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Schedule of Findings and Questioned Costs Year Ended June 30, 2018**

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**Finding Number: 2018-015**

Federal Programs: All Major Programs

*Category:*

Internal Control / Compliance

*Compliance Requirement:*

Procurement

*Condition:*

During our understanding of procurement processes and the performance of our audit procedures, we noted the following exceptions:

- In three (3) of four hundred twenty-five (425) disbursements examined, purchases performed by the noncompetitive procurement method did not maintain records in sufficient detail to properly substantiate the rationale for not carrying out a free and open competition.
- In thirteen (13) of four hundred twenty-five (425) disbursements examined, we noted that the non-federal entity was not able to provide records sufficient to detail the history of procurement.

After inquiries and evaluation of written policies and procedures related to the procurement process, we noted that PRDE's documented procurement policies, "Guía para la selección de servicios profesionales que son sufragados con fondos federales" effective January 26, 2007, establish that some services can be acquired under the noncompetitive procurement methods (e.g. accounting services, legal services). These services are not contemplated in the exceptions permitted by the federal regulation to apply the noncompetitive procurement method; not permitting a full and open competition practice and providing incentive to engage in unfair competitive advantage.

We also noted that procurement procedures followed by the PRDE Legal Division are different from those established and implemented by the Purchasing Department, which is the department responsible for executing the vast majority of purchases; including those paid with non-federal funds. Additionally, auditors noted that the Legal Division fails to maintain in enough detail documentation related to the procurement processes.

*Criteria:*

2 CFR Section 200.318(a) and (i) establishes that (a) the non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and that; (i) the non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

2 CFR Section 200.319(a) states that all procurement transactions must be conducted in a manner providing full and open competition consistent with the federal standards. In order to ensure objective contractor performance and eliminate unfair competitive advantage.

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2 CFR Section 200.320(f) establishes the non-Federal entity must use procurement by noncompetitive proposals, which is a procurement method through solicitation of a proposal from only one source, only when one or more of the following circumstances apply: (1) The item is available only from a single source; (2) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation; (3) The Federal awarding agency or pass-through entity expressly authorizes noncompetitive proposals in response to a written request from the non-Federal entity; or (4) After solicitation of a number of sources, competition is determined inadequate.

### *Cause:*

Lack of adequate controls regarding procurement procedures.

### *Effects:*

The above condition could result in misuse of federal funds granted. PRDE could not be in compliance with the applicable federal regulations.

### *Questioned Costs:*

Could not be determined.

### *Recommendation:*

We recommend management to perform an in-depth evaluation of the procedures established and practices made all across the PRDE divisions and update the written policies to conform with actual federal regulations and implement them accordingly.

### *Management response:*

PRDE partially disagrees with the auditors finding.

PRDE has in place a procurement process that contemplates exceptions to the regular competitive process. According to our "Guía para la selección de servicios profesionales que son sufragados con fondos federales", PRDE may initiate a noncompetitive procurement process when acquiring legal or accounting services, due to the nature of such services. As for legal services, these are required to comply with ethical canons by establishing a client-lawyer relationship that grants particular privileges to the lawyers, based on the reliability of its client that his lawyer will seek the best well-being of its client under most kind of circumstances. This type of relationship can't be identified during a regular competitive process, therefore, PRDE considers it as one of the acceptable exceptions under its policies and procedures.

PRDE understand that this finding should not be considered an exception, for the procurement process was performed in compliance with PRDE's noncompetitive procurement procedures. However, PRDE understands the importance to review and improve its procurement procedures. For this reason, PRDE's Procurement Office is conducting a comprehensive assessment to make a new purchasing regulation. This assessment will allow PRDE to address any kind of breaches that may arise from the purchasing processes of goods and services.

Besides the assessment to develop new procurement policies and procedures, PRDE is carrying out additional measures by evaluating the consolidation of all procurement processes that are performed by other offices. This will allow PRDE's Procurement Office to perform all procurement processes regardless of whether the source of funding is local/state or federal. In addition, PRDE is implementing the integration of its current purchasing system, known as

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Schedule of Findings and Questioned Costs Year Ended June 30, 2018**

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Strategic Sourcing. This system will allow PRDE to perform additional processes to acquire other elements other than goods and services by using the same software system.

Due to the economic situation of the island, the local government has imposed measures to ensure the stability and functioning of government agencies, by requiring to purchase those services that are offered by other government agency or division. This measure will generate economies by decreasing the costs many of these services result when acquiring them to an external or private company. In the event where an agency is unable to provide the goods or services according to the established specifications, the use of non-governmental suppliers may proceed. This situation explains one of the instances related to the use of non-competitive measures to purchase goods or services mentioned by the auditors.

However, for the other two instances related to the use of non-competitive methods, even though both transactions are listed as exceptions under PRDE's current procurement procedures manual, we understand that not all documentation was available during auditor's review. PRDE will continue to work towards maintaining all documentation of its procurement processes.

In relation to the instances where the program did not provide sufficient documentation of the procurement history from a specific non-federal entity, PRDE states that due to the onslaught of Hurricane Maria, countless documents archived in PRDE's premises were severely damaged. PRDE recognizes the importance of maintaining its procurement records and is evaluating methods to prevent such situations from happening in the future.

Contact person: Norma J. Rolón Barada, Director of Procurement

**Puerto Rico Department of Education  
(An Executive Agency of the Commonwealth of Puerto Rico)**

**Schedule of Findings and Questioned Costs  
Year Ended June 30, 2018**

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**Finding Number: 2018-016**

Federal Programs: CFDA No. 84.007, 84.033, 84.063; Student Financial Aid Cluster

*Category:*

Internal Control / Compliance

*Compliance Requirement:*

Reporting

*Condition:*

In our internal controls and compliance testing as to the Common Origination and Disbursement (COD) reporting, we selected a sample of sixty (60) participants and noted that in seven (7) instances the PRDE did not provide evidence of reporting the adjustments that should have been made through the student payment data in the COD System.

A similar finding was reported last year as finding 2017-021.

*Criteria:*

As per OMB No. 1845-0039, institutions must report student payment data within 30 calendar days after the school makes a payment or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data.

*Cause:*

Inadvertent oversight by the personnel in-charge of performing these procedures.

*Effects:*

PRDE may be subject to referral to Administrative Actions and Appeals Service Group (AAASG) for possible administrative sanctions.

*Questioned Costs:*

None.

*Recommendation:*

We recommend PRDE to develop and implement adequate procedures for processing adjustments to the disbursement records in the COD system in a timely manner, within the timeframe established by the regulation.



**Puerto Rico Department of Education  
(An Executive Agency of the Commonwealth of Puerto Rico)**

**Schedule of Findings and Questioned Costs  
Year Ended June 30, 2018**

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*Management response:*

The PRDE understands the condition of this finding, however it does not fully agree with it.

During the process of reviewing the information of this finding, the program staff reviewed and compared the data contained in the COD report against the data used to make disbursements to students who participate in the supplementary grants. During this process, the PRDE noticed a discrepancy between these reports.

The disbursements made by the PRDE are aligned to the authorizations received from the USDE through the ED Express platform, so we are confident that all disbursements were made according to the parameters established by the government to provide assistance to students through this program.

Since we are acquiring a new information system that serves this and the other findings, we understand that future instances will be considerably reduced. Also, we emphasize that this topic among many other will be covered in the technical assistance session to be held between September and November 2019 that PRDE is coordinating with USDE as a result of a recent Program Review.

USDE recently accepted the PRDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRDE partially disagrees. We expect that this process will allow PRDE to provide additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day-to-day operations to provide the most high-quality service and education to our students.

Contact persons:                      Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education  
   Kelvin J. Pagán, Technical Education Program Director

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Schedule of Findings and Questioned Costs Year Ended June 30, 2018**

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**Finding Number: 2018-017**

Federal Programs: CFDA No. 84.007, 84.033, 84.063; Student Financial Aid Cluster

*Category:*

Internal Control / Compliance

*Compliance Requirement:*

Special Test and Provisions - Return of Title IV Funds

*Condition:*

In testing compliance with the return of Title IV funds requirement, we selected sixty (60) participants of the Title IV Federal Financial Assistance programs and identified those students who withdrew, dropped-out, or failed to attend to the institution. During our evaluation of compliance with these requirements, we noted the following exceptions:

While reviewing and recalculating the return of Title IV funds determinations/calculations for conformity with Title IV requirements, we noted the following deficiencies:

- In one (1) case the institution computed the return of Title IV funds incorrectly.
- For four (4) students, PRDE did not provide evidence as to the return of Title IV funds calculation.

A similar finding was reported last year as item 2017-020.

*Criteria:*

34 CFR Section 668.22(e) states that the amount of Title IV grant or loan assistance that is earned by the student is calculated by—(i) Determining the percentage of Title IV grant or loan assistance that has been earned by the student, as described in paragraph (e)(2) of this section; and (ii) Applying this percentage to the total amount of Title IV grant or loan assistance that was disbursed (and that could have been disbursed, as defined in paragraph (l)(1) of this section) to the student, or on the student's behalf, for the payment period or period of enrollment as of the student's withdrawal date.

34 CFR Section 668.24 (a) states that an institution shall establish and maintain, on a current basis, any application for Title IV, HEA program funds and program records that document (1) Its eligibility to participate in the Title IV, HEA programs; (2) The eligibility of its educational programs for Title IV, HEA program funds; (3) Its administration of the Title IV, HEA programs in accordance with all applicable requirements; (4) Its financial responsibility, as specified in this part; (5) Information included in any application for Title IV, HEA program funds; and (6) Its disbursement and delivery of Title IV, HEA program funds.

*Cause:*

Lack of oversight by the personnel in-charge of performing the return of Title IV procedures.

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Schedule of Findings and Questioned Costs Year Ended June 30, 2018**

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### *Effects:*

Instances of noncompliance may expose PRDE to administrative actions by the grantor and/or questioned costs.

### *Questioned Costs:*

Could not be determined.

### *Recommendation:*

We recommend PRDE's management to review and strengthen its internal control procedures and to provide adequate training to the employees performing these procedures to ascertain procedures are performed as required.

### *Management response:*

Although these cases pointed out by the auditors are isolated cases, PRDE recognizes the importance of maintaining an accurate record of the funds that are disbursed to students and the responsibility for the return of Funds.

Regarding the instance of the incorrectly computed return of funds, PRDE will review and correct this case accordingly. Regarding the 4 other instances where no evidence of the return of funds was provided, it was explained to the auditor that this evidence was not available, since the PRDE usually drawdowns Title IV funds at the end of each semester, contemplating all necessary adjustments per student that must reduce the amount of PRDE's revenue.

PRDE has established the following procedures; continuous training of all Financial Aid Personnel regarding Return of Title IV Funds (R2T4) reporting regulations. Monitoring of the Financial Aid Personnel, who are responsible for R2T4 calculations, to ascertain appropriate procedures and regulations are being followed and the reports are accurate and consistent with the PRDE records.

The US Department of Education will provide a seminar on September 2019 to all the institution's personnel involved in managing Title IV funds. The Return to Title IV funds will be one of the topics to discuss.

We expect that the seminar will help us to prevent the recurrence of the above conditions in the future.

USDE recently accepted the PRDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRDE partially disagrees. We expect that this process will allow PRDE to provide additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day-to-day operations to provide the most high-quality service and education to our students.

Contact persons: Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education  
Kelvin J. Pagán, Technical Education Program Director

**Puerto Rico Department of Education  
(An Executive Agency of the Commonwealth of Puerto Rico)**

**Schedule of Findings and Questioned Costs  
Year Ended June 30, 2018**

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**Finding Number: 2018-018**

Federal Programs: CFDA No. 84.007, 84.033, 84.063; Student Financial Aid Cluster

*Category:*

Internal Control / Compliance

*Compliance Requirement:*

Special Test and Provisions - Disbursements to or on Behalf of Students

*Condition:*

During our compliance testing with this requirement, we selected a sample of sixty (60) participants and examined evidence of payments disbursed to students. While reviewing the disbursements evidence we noted the following:

- For four (4) students, auditors noted that six (6) Pell payments were paid after 14 days of the occurrence of the credit balance on the student account.
- For eight (8) students, auditors noted that eleven (11) FWS payments were compensated in a period that exceeded one month.
- For two (2) students, PRDE did not provide evidence (Payroll) as to student work performed on the FWS program.
- For one (1) student, PRDE did not provide evidence that student (or parent) received the corresponding payment.

A similar finding was reported last year as item 2017-023.

*Criteria:*

34 CFR Section 668.164(h) states that a Title IV, HEA credit balance must be paid directly to the student or parent as soon as possible, but no later than (i) Fourteen (14) days after the balance occurred if the credit balance occurred after the first day of class of a payment period; or (ii) Fourteen (14) days after the first day of class of a payment period if the credit balance occurred on or before the first day of class of that payment period.

34 CFR Section 675.16(a)(2) establishes that an institution must pay a student FWS compensation at least once a month.

34 CFR Section 668.24 (a) states that an institution shall establish and maintain, on a current basis, any application for Title IV, HEA program funds and program records that document (1) Its eligibility to participate in the Title IV, HEA programs; (2) The eligibility of its educational programs for Title IV, HEA program funds; (3) Its administration of the Title IV, HEA programs in accordance with all applicable requirements; (4) Its financial responsibility, as specified in this part; (5) Information included in any application for Title IV, HEA program funds; and (6) Its disbursement and delivery of Title IV, HEA program funds.

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Schedule of Findings and Questioned Costs Year Ended June 30, 2018**

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### *Cause:*

Lack of oversight by the personnel in-charge of performing the disbursements to participants.

### *Effects:*

Instances of noncompliance may expose PRDE to administrative actions by the grantor and/or questioned costs.

### *Questioned Costs:*

Could not be determined.

### *Recommendation:*

We recommend PRDE's management to review and strengthen its internal control procedures and to provide adequate training to the employees performing these procedures to ascertain procedures are performed as required.

### *Management response:*

PRDE acknowledge the importance of maintaining appropriate records to comply with all federal requirements regarding the use of Title IV funds.

Regarding the instances where payments were made outside of the appropriate timing, PRDE is in the process of acquiring a completely new Student Information System with an integrated Financial Aid module. This system will provide with automatize attributes to monitor the process of payments. This will allow PRDE staff to comply with the specific requirements related to disbursement of payments to or on behalf of students. Additionally, PRDE is working with the local Central Government to implement the corrective actions in order to prevent the recurrence of this finding.

Regarding the lack of evidence provided to the auditors on the payroll and receipt of payments, our institutions were strongly devastated by the aftermath of hurricanes Irma and María and a lot of student records were destroyed by floods. The new information system that PRDE expects to have fully implemented by FY 19-20, will allow PRDE to transition student files from paper to electronic format.

PRDE expects these measures will prevent the future recurrence of this finding.

USDE recently accepted the PRDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRDE partially disagrees. We expect that this process will allow PRDE to provide additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day-to-day operations to provide the most high-quality service and education to our students.

Contact persons: Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education  
Kelvin J. Pagán, Technical Education Program Director

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Schedule of Findings and Questioned Costs Year Ended June 30, 2018**

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**Finding Number: 2018-019**

Federal Programs: CFDA No. 84.007, 84.033, 84.063; Student Financial Aid Cluster

*Category:*

Internal Control / Compliance

*Compliance Requirement:*

Eligibility

*Condition:*

From a sample of sixty (60) students who received Title IV funds during the period under audit, auditors noted the following exceptions:

- In eighteen (18) instances, the need analysis worksheet ("Hoja de Trabajo para la determinación de necesidad") did not account for all the financial assistance awarded during the period under audit in order to determine that the financial assistance does not exceed the student's financial need.
- In one (1) instance, the student did not maintain satisfactory academic progress, as stated in PRDE Policy; however, a Pell disbursement occurred.
- For one (1) student of which Title IV Funds were disbursed during the year, the student's file was not available for the auditor's review.

A similar finding was reported last year as item 2017-022.

*Criteria:*

34 CFR section 673.5 states that (a) an institution may only award or disburse (1) an FSEOG and (2) award FWS employment to a student if the award, combined with the other estimated financial assistance the student receives, does not exceed the student's financial need. (b)(1) When awarding and disbursing an FSEOG or awarding FWS employment to a student, the institution shall take into account those amounts of estimated financial assistance it, (i) Can reasonably anticipate at the time it awards an FSEOG, or FWS funds to the student; (ii) Makes available to its students; or (iii) Otherwise knows about. (2) If a student receives amounts of estimated financial assistance at any time during the award period that were not considered in calculating the Federal Perkins Loan amount or the FWS or FSEOG award, and the total amount of estimated financial assistance including the loan, the FSEOG, or the prospective FWS wages exceeds the student's need, the over award is the amount that exceeds need.

34 CFR 668.32 establishes that a student is eligible to receive Title IV, HEA program assistance if, among other criteria's, the students maintains satisfactory academic progress in the courses of study according to the institutions published standards.

*Cause:*

Lack of oversight by the personnel in-charge of performing the disbursements to participants.

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Schedule of Findings and Questioned Costs Year Ended June 30, 2018**

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### *Effects:*

Instances of noncompliance may expose PRDE to administrative actions by the grantor and/or questioned costs.

### *Questioned Costs:*

Could not be determined.

### *Recommendation:*

We recommend PRDE's management to review and strengthen its internal control procedures and to provide adequate training to the employees performing these procedures to ascertain procedures are performed as required.

### *Management response:*

PRDE understands this finding.

Regarding the instance in which the student doesn't show satisfactory academic progress and however a disbursement occurs, we categorize this instance as an isolated case. The Institute's staff perform a case-by-case check on each student's academic performance at the end of the semester. This information is shared with the financial assistance staff to ensure student eligibility is correct. Although this internal controls are implemented and have always been a very valuable tool to limit the recurrence of this type of situations, PRDE will revise the controls in place and perform any update needed to strengthen the process.

With regards to the academic's files not available for auditor's examination, our institutions were strongly devastated by the aftermath of hurricanes Irma and María and a lot of student records were destroyed by floods. The new information system that PRDE expects to have fully implemented by FY 19-20, will allow PRDE to evaluate the transition of student files from paper to electronic format. PRDE expects the new system will be fully implemented during the fiscal year 2019-2020.

USDE recently accepted the PRDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRDE partially disagrees. We expect that this process will allow PRDE to provide additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day-to-day operations to provide the most high-quality service and education to our students.

Contact persons: Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education  
Kelvin J. Pagán, Technical Education Program Director

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Schedule of Findings and Questioned Costs Year Ended June 30, 2018**

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**Finding Number: 2018-020**

Federal Programs: CFDA No. 84.010; Title I Grants to Local Educational Agencies

*Category:*

Internal Control / Compliance

*Compliance Requirement:*

Special Test and Provisions – Annual Report, High School Graduation Rate

*Condition:*

During our test for compliance procedures with Annual Report Cards and High School Graduation Rate, we selected 40 students that were excluded from the adjusted cohort rate. For these students, we examined the written documentation that the student has a valid reason to be excluded of the calculation.

During our examination, the written documentation of exclusion was not available of four (4) of the forty (40) students selected.

*Criteria:*

34 CFR Section 76.731 establishes that a State and a subgrantee shall keep records to show its compliance with program requirements.

34 CFR Section 200.19 (b) establishes that each State must calculate a graduation rate, defined as the number of students who graduate in four years with a regular high school diploma divided by the number of students who form the adjusted cohort for that graduating class. The term “adjusted cohort” means the students who enter grade 9 (or the earliest high school grade) and any students who transfer into the cohort in grades 9 through 12 minus any students removed from the cohort. To remove a student from the cohort, a school or LEA must confirm in writing that the student transferred out, emigrated to another country, or is deceased. To confirm that a student transferred out, the school must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma.

*Cause:*

The exceptions indicated above were caused by inadequate filing and deficiencies on record keeping and lack of monitoring controls.

*Effects:*

PRDE could be exposed to administrative sanctions or cost disallowances. Additionally, the ability to manage federal awards in compliance with the laws, regulations, and provisions of contracts and grant agreements could also be questioned.

*Questioned Costs:*

Could not be determined.



# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Schedule of Findings and Questioned Costs Year Ended June 30, 2018**

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### *Recommendation:*

We recommend PRDE, in order to prevent the recurrence of the above conditions, PRDE shall emphasize that the personnel responsible for the determination of eligible participants fully understand the program regulations and requirements to ensure that the program's efforts are focused on the compliance with them.

### *Management response:*

DEPR recognizes the importance of maintaining and securing the information of all our students. Unfortunately, during the 2017-18 school year, Puerto Rico was shot down by one of the most fateful natural phenomena in modern history.

Hurricanes Irma and Maria brought in their wake countless problems which was the loss of information that was stored in many of our school campuses, regional and central offices. After a couple of days of hurricane Irma, when Puerto Rico was not ready to face a new challenge, a new tempest was coming. On September 18, 2017, the Puerto Rico Government started announcing the proximity of hurricane María. The projections showed that the hurricane was going to hit Puerto Rico directly on the morning of September 20, 2017. On September 18, 2017 the Government could only provide a very limited time for public employees to secure documentation and equipment at schools, districts, educational regions and central offices. PRDE staff did everything they could to keep all possible documents safe, however it was a great challenge to recover all of these.

Prospectively, the DEPR is evaluating the possibility of convert some additional paper form processes into electronic. In this way we can safeguard the information in case we are dejected again by a similar phenomenon. We hope that these initiatives will direct us to minimize instances like these in the near future.

Contact persons:                      Yanín M. Dieppa Perea, Auxiliary Secretary of Federal Affairs  
   Ileana Cortés Burgos, Title I Program Coordinator  
   Lydiana I. López Vega, Central Level Planning Office Director

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Schedule of Findings and Questioned Costs Year Ended June 30, 2018**

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**Finding Number: 2018-021**

Federal Programs: CFDA No. 84.010; Title I Grants to Local Educational Agencies

*Category:*

Internal Control / Compliance

*Compliance Requirement:*

Special Test and Provisions – Assessment System Security

*Condition:*

During our test for compliance procedures with Assessment System Security, we selected 40 schools to review the policies and procedures regarding the test security for the assessments and review documentation of the implementation of those security measures. The implementation of those measures is examined with a security agreement signed by the school director and before and during assessments monitoring reviews conducted to ensure the security and confidentiality of its administration.

Specific instances identified during our review of security implementation were as follows:

1. For sixteen (16) of forty (40) schools examined, no security agreements ("Certificación de Medidas de Seguridad") were available for our review.
2. For six (6) of forty (40) schools examined, no documentation of monitoring reviews conducted before assessment tests were available for our review.
3. For seven (7) of forty (40) schools examined, no documentation of monitoring reviews conducted during assessment tests were available for our review.

*Criteria:*

34 CFR Section 76.731 establishes that a State and a subgrantee shall keep records to show its compliance with program requirements.

Section 1111 (b)(2)(B) of the Elementary and Secondary Education Act of 1965 (ESEA), as amended, states that each state plan shall demonstrate that the State educational agency, in consultation with local educational agencies, has implemented a set of high quality student academic assessments in mathematics, reading or language arts, and science. The assessments shall be used for purposes for which such assessments are valid and reliable, consistent with relevant, nationally recognized professional and technical testing standards, objectively measure academic achievement, knowledge, and skills, and be tests that do not evaluate or assess personal or family beliefs and attitudes, or publicly disclose personally identifiable information.

*Cause:*

The exceptions indicated above were caused by inadequate filing and deficiencies on record keeping and lack of monitoring controls.

# **Puerto Rico Department of Education (An Executive Agency of the Commonwealth of Puerto Rico)**

## **Schedule of Findings and Questioned Costs Year Ended June 30, 2018**

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### *Effects:*

PRDE could be exposed to administrative sanctions or cost disallowances. Additionally, the ability to manage federal awards in compliance with the laws, regulations, and provisions of contracts and grant agreements could also be questioned.

### *Questioned Costs:*

Could not be determined.

### *Recommendation:*

We recommend PRDE, in order to prevent the recurrence of the above conditions, PRDE shall emphasize that the personnel responsible for the determination of eligible participants fully understand the program regulations and requirements to ensure that the program's efforts are focused on the compliance with them.

### *Management response:*

PRDE recognize how data maintenance ensures the important work that the system does in educating children. Especially, when it comes to measuring the efficiency of the teaching provided to them through our system.

Unfortunately, during the 2017-18 school year, Puerto Rico was struck by one of the most fateful natural phenomena in modern history.

Hurricanes Irma and Maria brought in their wake countless problems which was the loss of information that was stored in many of our school campuses, regional and central offices. After a couple of days of hurricane Irma, when Puerto Rico was not ready to face a new challenge, a new tempest was coming. On September 18, 2017, the Puerto Rico Government started announcing the proximity of hurricane María. The projections showed that the hurricane was going to hit Puerto Rico directly on the morning of September 20, 2017. On September 18, 2017 the Government could only provide a very limited time for public employees to secure documentation and equipment at schools, districts, educational regions and central offices. PRDE staff did everything they could to keep all possible documents safe, however it was a great challenge to recover all of these.

For this reason, we understand that the observations made by the auditors are an isolated, non-recurring case. Moreover, PRDE hasn't faced this type of finding in the recent years. PRDE is committed to comply with all federal regulations.

Contact persons:           Yanín M. Dieppa Perea, Auxiliary Secretary of Federal Affairs  
                                     Daisy Hernández, Assessment Unit

**Puerto Rico Department of Education  
(An Executive Agency of the Commonwealth of Puerto Rico)**  
**Summary Schedule of Prior Year Findings  
For the Year Ended June 30, 2018**

Finding Number	Finding (condition found)	CFDA #	Questioned Costs	Status	Management Corrective Action plan	Anticipated Completion Date	Responsible Officer	Contact number	USOE Determination of Finding
2017-001	During the fiscal year ended June 30, 2017, the PRDE has identified improper payments totaling \$9,423,486 from state and federal funds. This balance arises principally from overpayments to teachers, improper salary payments to employees or former employees, and overpayment of vacation and sick leave. The date of the overpayments may have occurred during the current or prior fiscal years. Furthermore, the PRDE has not provided assurance that all overpayments have been identified.	not applicable	not applicable	Partially Completed	Details of this same finding were included by the auditors in finding 2017-010.  As mentioned in the 2017-010 Management Corrective Action Plan, PRDE continues to work on the project for the implementation of an automated process that will prevent improper salary payments, overpayments and payments to employees without accumulated vacation or sick leave balances, among others. As the integration tests of this process is coming to an end, PRDE expects to start phase one of implementation by installing the system and have it fully functional in the next fiscal year, primarily impacting central level employees and prospectively each and every regional office and schools.  PRDE's Human Resource Office has also developed and implemented a new policy of time, Attendance and Tardiness, effective July 2019. That same month, during the Annual PRDE's School Director's Conference, they coordinated and held an extensive training session about its applicability and severity to more than 800 school directors who will now be entrusted to transfer that knowledge among other employees of their respective schools. In relation to the timely collection of accounts receivable balances, Payroll and Finance units have begun working on revisions to existing procedures in order to: (a) promptly identify existing employees without accumulated vacation or sick leave balance; (b) calculate any overpayments; and (c) establish payment plans to collect balances owed through payroll deductions.	6/30/2020	1) Evelyn Rodriguez Cardo, Finance Director 2) Judith Pavia Rivera, Accounts Receivable's Supervisor 3) Eric Pérez, Auxiliary Secretary of Human Resources	(787) 775-2636	USOE has not issued a determination for this finding.
2017-002	From a sample of one hundred and twenty employee payroll payments (sixty payments from federal funds and sixty payments from state funds), the auditors identified material weaknesses and evidence of noncompliance.	not applicable	not applicable	Partially Completed	Details of this same finding were included by the auditors in finding 2017-005.  As mentioned in the 2017-005 Management Corrective Action Plan, PRDE continues working towards the implementation of a new employee time and attendance system in order to have a better and more accurate system. However, while this implementation takes place, PRDE is continuously making efforts to control and reconcile discrepancies between TAL and STAFF.	6/30/2020	1) Eric Pérez, Auxiliary Secretary of Human Resources	(787) 775-2476	July 26, 2019 FOL, USOE stated that PRDE must continue to make improvements in its payroll system to address the discrepancies between the TAL and STAFF systems, including policies and procedures, and demonstrate that it has policies and procedures and other such controls in place to manage its payroll system and ensure documentation reflecting personnel time and attendance is maintained.
2017-003	From a sample of fifteen debits payments related to transportation services for students, the auditors noted the following:  In nine instances, the providers' "Oferta del Licitador" with approved cost by route were not attached to the contract provided and, therefore, the auditors could not validate the providers' daily cost billed by route as per disbursement voucher under transportation system "Sistema de Manejo de Transportación Escolar". After the auditor's preliminary finding was brought to the attention of the Department, the latter provided an Excel file with the routes for the contracts in question; however, the same represents an internal document that was not part of the legal contract.  In four instances, payments were approved by the School Transportation Supervisor thirty days after invoice submission. These invoices were approved for disbursements between 36 and 116 days after the invoice submission.	not applicable	not applicable	Completed	PRDE does not agree with the nine exceptions identified within this finding. As per regulatory document number 6752, known as "Reglamento para la Transportación de Estudiantes", specifically Article 16, "Procedimientos para Conocer la Subasta", explains the steps to perform a formal bidding process. For the past years, PRDE has given instructions to conduct emergency contracting process which is detailed in Article 58, "Procedimiento para Contratos de Emergencia" and does not require a PTE-6 – "Oferta de Licitador" document as necessary in the formal bidding process.  Accordingly, the nine instances mentioned above were discussed with the auditors in multiple times, and as documentation requested was provided to them. After the review of the documentation, auditors claimed not to be able to reconcile the amounts in contracts with the amounts in the invoices corresponding each contract. As a result, and as part of the single audit procedures, a complete list of the invoices was provided to the auditors.  Regarding the four instances in which a payment was not issued during the following 30 days after the invoice was submitted, PRDE does not agree with this finding. Transportation invoices are evaluated in two different scenarios: regular transportation and special education regular and therapy transportation. For regular transportation, a school is assigned as a destination location for a route. This process begins after the provider submits the invoice, then first approval is required by the school director, and ends with the Transportation Supervisor's approval. For special education routes, a destination not necessarily corresponds to a school director, instead it could be a therapy center, which does not have access in SMTE to approve invoices. The Supervisor waits for a school certification certifying the service was provided. This certification could delay the due invoice approval.  As a corrective measure to address special education invoices and other situations, this fiscal year, a system upgrade was implemented and will communicate with three different PRDE systems: Student Information System (SIS), Special Education System (MPE) and Financial Information System (SIFE). Each system will integrate important information regarding school transportation invoice approval. For regular transportation, the SIFE will provide student attendance and school lecture days. For special education, MPE will provide information regarding student attendance in private schools and therapies.	12/31/2019	1) Norma Rolón - Director of Procurement Office	(787) 773-2481	USOE has not issued a determination for this finding.
2017-004	The PRDE did not meet the Level of Effort - Maintenance of Effort requirement under either of the two available methods to determine compliance with the requirement. For fiscal year 14-15, the PRDE's state expenditures for Career and Technical Education program amounted to \$13,555,036, to cover a certified enrollment of 31,216 students, or \$2,370 per student. For fiscal year 15-16, the PRDE's state funds expenditures for this program amounted to \$72,049,307, to cover a certified enrollment of 37,160 students, or \$1,939 per student.  Aggregate efforts decreased from FY14-15 to FY15-16 by \$1,431,731, or 7.61%. The State's per-student effort decreased by \$432 or 16.23%.  A similar finding was reported in the last two years, as finding 2016-008 and 2015-011.	64-046	None	Partially Completed	PRDE closely monitors compliance with the Maintenance of Effort (MOE) requirement. While PRDE has historically complied with this provision, in recent years PRDE has experienced fluctuations in both federal and state funding for career and technical education. In addition, the Government of the Commonwealth of Puerto Rico has experienced challenging financial circumstances resulting in a decrease in the state budget for education for the past few years. Further, due to the current financial circumstances in Puerto Rico and the Financial Oversight and Management Board's ultimate control over state funding, and most recently the adverse impacts of Hurricanes Irma and Maria, Puerto Rico can no longer rely on the same sources to calculate MOE and needs to revise its methodology.  The U.S. Department of Education (ED) or the Department has been cognizant of PRDE's need to revise its MOE methodology since the 2015 single audit process. Specifically, on November 9, 2016, PRDE received a program determination letter (PDL) for the audit period July 1, 2014, through 2016. Finding 2016-011 noted that PRDE did not meet the MOE requirement under either of the two available calculation methods. The Department sustained the auditor's finding 2016-011 and requested: (1) revised policies and procedures to calculate MOE, and (2) spreadsheets showing actual expenditures for CTE for the two years in question.  On February 1, 2017, PRDE sent a letter to the Department proposing a new MOE methodology. Thereon, PRDE outlined that the only reliable source of funding allocated to CTE programs is the non-federal, state administrative match funds (as required under Perkins Section 132(c)) and requested to use these funds to demonstrate compliance with the MOE requirement. On March 23, 2017, PRDE provided the Department with the corrective actions and supporting documentation requested in the November 2016 PDL. On July 6, 2017, the Department rejected PRDE's proposed MOE methodology, and upon the same communication informed PRDE that the corrective actions and supporting documentation submitted on March 23, 2017, was insufficient to resolve Finding 2016-011. The Department noted that the MOE issue would be discussed during the August 2017 Perkins onsite monitoring visit.  During the August 2017 monitoring visit, PRDE staff met with the Department to once again discuss MOE. PRDE provided the Department additional information, and the Department noted that the additional information would be given to the audit team in an effort to resolve the finding.  On December 6, 2017, the Department issued its final report for the August 7-11, 2017, onsite monitoring visit. Finding #4 related to PRDE's failure to meet MOE for program year 2015-2016 and the Department stated that "this finding will be resolved through the FY 2015 and 2016 single audit process." The Perkins monitoring was predicated on a fundamental misunderstanding of PRDE's status as a unitary system. Struck by the magnitude of the findings and ED's failure to comprehend PRDE's basic systems and operations, PRDE immediately began working to prepare an appropriate response. Two months later, on February 6, 2018, ED became aware of its error and withdrew the monitoring report and stated that another report would be issued shortly. As of the date of this response, PRDE has not received a revised monitoring report or any other communication from the Department regarding the 2015 and 2016 single audit process.  As of this date, PRDE has not received any additional communication regarding this matter. However, PRDE received a technical assistance visit from CCTAE during May 15-16, 2019, related to the implementation of the new Perkins V Act.  During this visit, USOE requested additional information regarding the MOE state expenditures for FY's 2016-2017 and 2017-2018. USOE also indicated that he will provide this additional information to the Audit Division to finally conclude the resolution of these findings.  Accordingly, to resolve this ongoing issue, PRDE requires assistance from the Department in revising its methodology to calculate compliance with the Perkins MOE requirement. Under the revised methodology, PRDE will appropriately identify and account for Commonwealth funding sources dedicated to career and technical education.	12/31/2019	1) Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education 2) Yenny M. Dieppa Peña, Auxiliary Secretary for Federal Affairs	(787) 773-6968	USOE has not issued a determination for this finding.

Finding Number	Finding (condition issue)	CFR #	Discretionary Costs	Status	Management Corrective Action Plan	Anticipated Completion date	Responsible Office	Contact number	USOE Determination of finding
2017-005	From a sample of one hundred and twenty employee payroll payments (sally payments from federal funds and sally payments from state funds), the auditors identified the following:  In nine instances (eight state payments and one federal payment), the PRDE could not provide evidence regarding the difference between the total hours paid to salaried employees and total hours registered in the Time and Attendance System (hereinafter, TAL system). The auditors also considered the possibility that these hours had been paid through a license or adjustment, using OE-14 form "Solicitud de Ajustes y Licencias en Sistema TAL", but that was not the case either. Although the PRDE represented that these employees had accumulated income balances to cover for these licenses or adjustments, forms OE-14 were not provided.  In one instance (one federal payment), the auditors noted a difference between the total hours paid to one hourly employee and total hours recorded in the TAL system.	44.027 44.173	Could not be determined	Partially Completed	PRDE will continue working towards the implementation of a new employee time and attendance system in order to have a better and more accurate system. However, while this implementation takes place, PRDE is continuously making efforts to correct and reconcile discrepancies between TAL and STAFF.	6/30/2020	1) Eric Pérez - Auxiliary Secretary of Human Resources	(787) 773-3476	July 26, 2019 PDL, USOE stated that PRDE must continue to make improvements in its payroll system to avoid the potential for improper payments to personnel, unallowable costs, and/or inaccurate balances of accrued compensated services.  USOE required PRDE to provide OSEP with written evidence that it has recovered its payroll system to address the discrepancies between the TAL and STAFF systems, including policies and procedures, and demonstrate that it has policies and procedures and other such controls in place to manage its payroll system and ensure documentation reflecting personnel time and attendance is maintained.
2017-006	To determine compliance with the equipment and real property management requirement, the auditors noted the following:  The physical inventory of the PRDE's personal property has not been taken by the PRDE's Property and Equipment Division (the Property Division) during the last two years.  For the additions of equipment acquired during the Fiscal Year 16-17, the auditors noted the following: 1. In eighty instances of one hundred fifty-two items, the PRDE's property records were not updated to indicate the current custodian of the property. 2. In two instances of one hundred fifty-two items selected, the properties (LCD TV) were not available for examination. The PRDE represented to the auditors that one of the selected properties was stolen, however the PRDE could not provide evidence to the auditors to support that a formal complaint of stolen property was filed as recommended by the Bureau of Criminal Investigation. 3. In three instances of one hundred fifty-two items selected, the equipment was not properly tagged with the assigned property number. 4. In two instances of one hundred fifty-two items selected, the PRDE did not update the property records and Form (DE-1211 "Noticia de Placeridad en Uso") to reflect the current location of the equipment physically observed. 5. In twenty-five instances of twenty-five equipment disposals tested, the PRDE did not prepare the "Solicitud de Retiro de Propiedad" form as required by the PRDE's Equipment Manual. 6. In seven instances of twenty-five equipment disposals tested, the "Acta de Descarte" form was not available for auditor's review. 7. In three instances of twenty-five equipment disposals tested, Form SC-767 "Declaración de Integridad Excedente" was available for examination.  Similar findings were reported in the last two years, as finding 2016-007 and 2016-008.	44.046 49.310 44.019 44.027 44.173	\$2,794	Partially Completed	PRDE continues to be engaged with the prioritization of resolving the issues noted within this finding and the required annual physical inventory. After performing significant modifications to the Asset Management Module in June 2017, Puerto Rico was hit by hurricanes Irma and Maria, causing a notorious delay in the timeline to get in place to perform audits and inventory reconciliations. As a result, the Property Management Office started the process of taking physical inventory in April 2018 and can now report a 95% of completion. The expected date to finalize the inventory taking is October 2019.  Besides the efforts of completing the physical inventory, PRDE is performing additional modifications to the Asset Management Module within the PRDE's Accounting System (SICDE, acronym in Spanish) to present the percentage of federal participation in the cost of the property and the use and condition of the asset. Also, the improved Asset Management Module will allow PRDE to produce the annual SCIDIS report, which is required by the PR Treasury Department. We expect this enhancement to be in place by next fiscal year.  PRDE will continue improving and reinforcing its internal controls to ensure that its Property Management Office complies with its own internal procedures, demonstrating that disbursements and property transactions comply with Federal Law, and applicable federal and state regulations. We are confident that the implementation of this measure will lead the Asset Management Office to continue minimizing the instances observed by the auditors in this finding.	11/30/2019	1) Claudio Guzmán, Undersecretary of Administration 2) Jhaida Morales, Property Director	(787) 773-3041	July 26, 2019 PDL, USOE required PRDE to provide OSEP a written update of its activities regarding updated internal procedures or guidelines, training activities related to this new module, inventories and monitoring reports related to achieve objectives, etc. It was determined that the Commonwealth has fully completed and implemented the activities described above, of its proposed activities are not completed by October 31, 2019, PRDE must report on any progress towards improving its control procedures over its personal property.
2017-007	The PRDE did not meet the Maintenance of Effort (MOE) requirement as required under the Elementary and Secondary Education Act (ESEA), as amended by the No Child Left Behind Act of 2001 (NCLB). The measure of free public education for the preceding fiscal year was 47 percent, falling below the requirement of 50 percent, of the aggregate expenditures for the second preceding fiscal year.	44.016 44.261	None	Completed	PRDE closely monitors compliance with the Maintenance of Effort (MOE) requirement and has historically complied with this provision. However, because of the current dire financial circumstances in Puerto Rico and a substantial reduction in student enrollment has led the PRDE to a non-compliance with the MOE requirement.  As a corrective action PRDE reduced its spending of the FY 2016 federal funds received and reserved an amount equal to 3% of those funds, the same percentage by which the PRDE failed to meet the 50% MOE required, as allowed by Section 6521(b)(1) of the Elementary and Secondary Education Act, as amended by the No Child Left Behind Act of 2001.  On August 2018, PRDE received a memo from the USOE with the instructions related to how PRDE should perform the processes of calculation of MOE. Specifically further communications were established in order to generate more information and by email communications that were also supplied to the auditors. They stated that "The attached letter from the U.S. Department of Education (ED) annually determines whether States maintained fiscal effort in the preceding fiscal year under section 1125A(c) of the ESEA." [As a unitary system, this also means that Puerto Rico has met the LEA MOE requirement in section 6521 of the ESEA. Therefore, due to Puerto Rico's unitary status, it is not necessary for Puerto Rico independently to determine whether it maintained effort under sections 1125A(c) or 6521 of the ESEA because ED performs that function when it annually checks whether Puerto Rico (and other States) met the State MOE requirement in section 1125A(c).]	11/30/2018	1) Yanni M. Berque Pérez, Auxiliary Secretary for Federal Affairs	(787) 773-2003	USOE has not issued a determination for this finding.
2017-008	The PRDE has policies requiring that subrecipients comply with Title 2 U.S.C. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Grant Principles, and Award Requirements, but 1 relevant Award (Uniform Guidance), as it relates to single audit reporting. However, one out of twelve non-for-profit subrecipients selected for testing received reimbursements for expenditures incurred in excess of \$150,000 during the fiscal year 16-17 and the required compliance report was not available for our examination. The PRDE submitted a communication to the subrecipient dated May 21, 2016, after the auditor's finding was discussed, requiring the program's compliance report for the subrecipient year ended December 31, 2016. However, the subrecipient only provided the compliance report issued for the year prior, 2015.	44.261	None	Completed	PRDE disagrees with this finding. The Twenty First Century Program has sufficient evidence that it performed monitoring activities to its sub grantees throughout the fiscal year when various means. The Program has in place sub recipient monitoring procedures that clearly define where the responsibility resides to obtain and review the required federal audit reports, in a timely manner, to avoid recurrence of the finding.  PRDE understands it needs the criteria applicable to sub recipient monitoring compliance requirement. As established by 34 CFR 60.49, PRDE monitored the sub recipient activities to assure compliance with the applicable federal requirements and that their performance gaps were achieved at the end of the fiscal year. As part of the monitoring activities that were performed, sub recipients were subject to onsite programmatic and fiscal monitoring, reviews interventions before disbursement of funds and approval of budget transfers, and evaluation of achievement reports, validating that performance gaps were met.  PRDE provided evidence to the external auditors that the program provided technical assistance to the sub recipient over which report they were required to submit. Sub recipient successfully submitted an audited financial statement report, instead of a single audit report. The Twenty First Program held written and verbal communications with the sub recipient, clarifying that they must submit a Single Audit report, its reported expenditures of more than \$150,000 in federal funds. After technical assistance was provided, the program proceeded in implementing corrective actions to the sub recipient, as established in their procedures manual.  As established in 31 U.S.C. 11432(c)(2)(B)(i)(C), PRDE renewed as necessary the audit of its sub recipient to determine whether prompt and appropriate corrective action had been taken with respect to audit findings, as defined by the Director, pertaining to federal awards provided to the sub recipient by the pass-through entity.	11/30/2018	1) Yanni M. Berque Pérez, Auxiliary Secretary of Federal Affairs 2) Luis Oropelmer, Title IV, Part A Coordinator	(787) 773-2003	July 26, 2019 PDL, USOE stated that the Program should have in place sub recipient monitoring procedures that clearly define where the responsibility resides to obtain and review the required federal audit reports, in a timely manner, to avoid recurrence of the finding.  PRDE developed and implemented such procedures.
2017-009	To determine compliance with reporting and eligibility requirements, the auditor performed the following procedures that resulted in the exceptions noted:  1. Obtained the database of children with disabilities who were enrolled in a school during the fiscal year 2015-2016, when selection was made from the Child Count and Educational Environment Data Report submitted during the fiscal year 2016-2017 to the Office of Special Education Programs (OSEP). As part of the auditor's selection of the database for completeness and accuracy, five instances of children with disabilities incorrectly receiving special education were enrolled in "Mi Profe Especial" (MPE) system as new students resulting in a duplicated entry.  2. From the Child Count and Educational Environment Data Report the auditor's selected a random sample of fifty participants to determine if the required recertifications (34 CFR section 300.303) were performed at least once every three years. The auditor noted in twenty-five instances that the required recertification was not available for examination.  3. Randomly selected an additional sample of twenty-five new participants that received services during the year to evaluate the timeframe for determination of the participants' eligibility during the following:  In three cases, the evaluation of the participant was performed in excess of required 60 calendar days (34 CFR section 300.301) from the registration date or parent's authorization for the evaluation (between 64 up to 136 calendar days).  In ten cases, the Individualized Education Program (IEP) was created in excess of 60 calendar days since the registration date (between 92 up to 216 days).	44.027 44.173	None	Completed	As it can be noted from the management response provided by the Special Education Program for the Single Audit Report FY 2017, we don't concur with the auditor's findings, specifically for exceptions 1, 3(a) and 3(b). However, for exception 1, the program carried out efforts to continue working towards providing the best data quality it can be provided in federal reports. Those efforts were completed and the appropriate report was submitted.  PRDE noted in its April 10, 2019, and June 20, 2019, correspondence to OSEP that it did not concur with the finding related to the FFY 2017 Child Count. PRDE indicated that it has carried out efforts to ensure improved data quality. Specifically, PRDE indicated that for the Child Count for the 2017-2018 academic year (FFY 2018), the program analyzed every case to verify the students' information, including name, date of birth, age, and any other information, was exactly the same and corroborated it was a duplicated line. PRDE also indicated that in a rare circumstance where a student's record was duplicated, it was deleted and the Commonwealth is implementing procedures to ensure such circumstances are reduced and data quality is improved.	11/30/2018	1) Mr. Ezequiel Ramos Pares, SE Associate Secretary 2) Mrs. Dabier Cárdeno Muñoz, SE Compliance Director 3) Mr. Irving Falcón Pulido, SE Data Manager	(787) 773-6166	According to the July 26, 2019 PDL, USOE states that based on the actions PRDE has taken to improve its data quality and reporting, no additional corrective actions are required at this time.  In the June 26, 2019 written status reports to OSEP, PRDE indicated that the one student's pending recertification was completed. According to the July 26, 2019 PDL, USOE states that based on the actions PRDE has taken to ensure students are properly documented in MPE, no additional corrective actions are required at this time.  July 26, 2019 PDL, USOE stated that for the last three consecutive years, PRDE has demonstrated consistent progress in its APR data for the indicators related to timely progress. Specifically, in FFY 2015, PRDE reported 99.75 percent of children were evaluated within 60 days of receiving parental consent for initial evaluation or, if the Commonwealth established a timeframe within which the evaluation must be conducted, within that timeframe, 96.84 percent in FFY 2016, and 96.65 percent in FFY 2017. While these percentages do not represent a full 100 percent compliance, it does represent a high level of compliance.  July 26, 2019 PDL, USOE states that based on the progress PRDE has demonstrated regarding how often and the actions described above, no additional corrective actions are required at this time.

Finding Number	Finding (condition tested)	USDA #	Questioned Costs	Status	Management Corrective Action plan	Anticipated Completion date	Responsible Officer	Contact number	USDE Determination of finding
2017-010	During the fiscal year ending June 30, 2017, the PRDE has identified accounts receivable totaling \$9,423,468 due from employees and contractors that arise from overpayments to transportation services contractors, improper salary payments to employees, and overpayment of vacations and sick leave. The date of those payments that are being claimed by the PRDE may have been made in the current or prior fiscal years. Furthermore, the PRDE has not provided assurance that all payments have been identified and reclassified to the receivable balance. The schedule of expenditures of federal awards may include uncollectible costs due to improper payments performed during the year ended June 30, 2017.  In addition, the auditors performed a test of terminated employees during fiscal year 2017. From a sample of July out of 2 population of 11,000 terminated and eighty seven terminated employees, the auditors identified the following:  In this instance, improper salary overpayments were noted. Eight of the instances amounting to \$17,093 were included in the amounts stated above. The remaining two instances amounting to \$11,620 were identified by the PRDE after fiscal year end 2017, and therefore, not included in the amounts stated above.  A similar finding was reported last year by item 2016-003.	84-007 84-010 84-027 10-555 10-555	\$2,012,700	Partially Completed	PRDE continues to work on the project for the implementation of an automated process that will prevent improper salary payments, overpayments and/or payments to employees without accumulated vacations or sick leave balances, among others. As the preparation of this statement is coming to an end, PRDE expects to start phase one of implementation by installing the system and have it fully functional in the next fiscal year, primarily engaging central level employees and prospectively each and every regional office and schools.  PRDE's Human Resource Office has also developed and implemented a new policy of Time Attendance and Tardiness, effective July 2016. That same month, during the Annual PRDE School Director's Convention, they coordinated and held an extensive training session about its applicability and severity to more than 900 school directors who will now be entrusted to transfer that knowledge among other employees of their respective schools. In relation to the timely collection of accounts receivable balances, Payroll and Finance units have begun working on revisions to existing procedures in order to: (a) promptly identify existing employees without accumulated vacation or sick leave balance, (b) calculate any overpayments, and (c) establish payment plans to collect balances owed through payroll deductions.	6/30/2020	1) Evelyn Rodriguez Carabé, Finance Director 2) Judith Flores Flores, Accounts Receivables Supervisor 3) Eric Pérez, Auxiliary Secretary of Human Resources	(767) 773-2636 (767) 773-3476	USDE has not issued a determination for this finding.
2017-011	In testing compliance and internal control over special reporting, the auditors obtained copy of the Fiscal Operations Report and Application to Participate Interim (FISAP) for the Fiscal Year 2016-17 and tested the amounts reported in Part IV (4 line items) to PRDE's disbursement records, noting certain discrepancies. The amounts reported as disbursed for 2 out of 4 line items selected for testing did not agree with the amounts actually disbursed by the PRDE, as evidenced in the accounting records.	84-007 84-033 84-063	None	Partially Completed	PRDE has in place adequate monitoring controls over the FISAP reporting process to ensure the accuracy and reliability of financial information reported.  As a measure to control the quality and performance of the process, from FY 2016-2019 and prospectively, the PRDE Central level will conduct monthly monitoring visits to the units to confirm that the process is being followed and the accuracy of the process is maintained. This process will identify any deficiencies and provide the support and resources needed in order to remedy any errors before the next required report is submitted.  PRDE continues making efforts to prevent the recurrence of this finding. As part of the corrective actions made towards this condition, the following procedures have been established:  1. Continuous training of all Financial Aid Office personnel regarding FISAP reporting and federal disbursement regulations, and 2. Monitoring the Financial Aid Office personnel, who are responsible for gathering the FISAP report data, to ascertain the appropriate procedures are being followed and that the reported data is accurate and consistent with PRDE's disbursement records.  Also, as part of the corrective action plan, PRDE will coordinate a technical assistance visit from the US Department of Education to provide a seminar to all the institutions' personnel involved in the administration of Title IV funds. This seminar will help PRDE to prevent the recurrence of the above condition in the future.  PRDE is in the process of acquiring a completely new Student Information System with an integrated Financial Aid module. During the Fiscal Year 2016-2017, PRDE implemented a Student Information System (SIS) within the institutions and training was provided to all the personnel including those working with the SFA Program. The SIS implementation was supposed to improve the Title IV funds management and financial procedures, however, the results obtained did not meet the required expectations. The new system will be fully implemented during the fiscal year 2019-2020.  In addition, USDE recently accepted a PRDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRDE partially disagrees. We expect that this process will allow PRDE to provide additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day-to-day operations to provide the most high-quality service and education to our students.	6/30/2020	1) Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education 2) Kelvin J. Pagan Lo Lue, Technical Education Program Director	(767) 773-6666 (767) 773-6666	Per Final Audit Determination (FAD) letter of June 10, 2019, USDE states that the effectiveness of the institution's corrective action should be evidenced through the elimination of this finding in future audits.  In addition, an appeal process is underway for all matters related to this finding. Therefore, no final determination has been received from USDE yet.
2017-012	To determine compliance with the cash management requirements, the auditors identified a list of three funded and ten disbursements selected for testing, that the federal funds deposited to the PRDE's account were disbursed after the required time frame of three business days of their availability.  A similar finding was reported last year as finding 2016-005.	84-048 84-366 84-366	None	Partially Completed	PRDE disagrees with the auditors finding in part. PRDE has worked towards complying with this Federal requirement and has accomplished a lot through the recent years.  For most of the instances that auditors identified funds were disbursed after the required time frame of three (3) business days of their availability, PRDE recognizes that even though on March 2017, PRDE developed a new process in its Accounting System (PRDE's account in Spain) to mostly automate the payment process, we were still in the process of full implementation of the corrective action plan to comply with the terms and conditions established in the Cash Management Improvement Act Agreement.  The process consists on that on a periodic basis, the Treasury Department enters in PRDE the balance available for issuing payments. Authorized PRDE personnel then selects the payment vouchers that are required to be released and proceeds on processing the "unfunds" vouchers. The payment cycle is processed and available for the Treasury Department approval. Once approved, PRDE proceeds with the checks' submission to the entity for the corresponding process. However, PRDE is performing specific testing over transactions not being covered by the aforementioned automated process.  On the other hand, PRDE is in the process of covering most of its payments to its suppliers, whenever possible, to the ACH method. This method allows to disburse payments directly to the bank accounts of the suppliers, facilitating the process of obtaining an audit trail of each transaction. Near the date that these transactions were noted by the auditors, the last disbursement tests were being carried out using the ACH method.  For the instances where auditors identified that check clearance date was several days after being issued, PRDE has demonstrated to track at least 95% of the funds disbursed from issuance to clearance for a period of at least three months, as stated by Section 7.4 of the Treasury State Agreement (TSA). Also, through PRDE's actual accounting system (SIFIDE), the agency is able to meet with the requirements stated under Section 7.5 of the TSA. SIFIDE provides PRDE the date that the check was released for payment, date the check was debited from the State's account and the amount of the check.  In compliance with federal requirements for programs on an advance method, PRDE demonstrated it has established procedures to minimize the time elapsed between the drawdown of federal funds and the disbursement of check payments. PRDE continues to closely monitor all the payments issued and has constantly minimized the number of instances auditors find during their tests.	12/30/2019	1) Evelyn Rodriguez Carabé, Finance Director	(767) 773-2636	July 20, 2019 PCA, USDE stated that this deficiency must be expressed through the terms stated in the Specific Conditions imposed to PRDE in June 20, 2019, therefore not requiring additional corrective action and considering this finding solved.
2017-013	In testing compliance and internal control over the cash management requirement, the auditors randomly selected a sample of twenty-four out of two hundred forty payment requests processed in the GS system, to determine that the PRDE disbursed funds in accordance with the lengthened Cash Monitoring method (also called "HCM"). For three payment requests, totaling \$1,156,164, the PRDE was unable to provide a complete listing of student accounts as to which these payment requests were applied to.  Student account balances ledgers were not readily available for examination when performing the auditors' tests. Instead, the PRDE had to manually produce each student ledger requested by the auditors for examination using an Excel file. A similar finding was reported last year as findings 2016-013 and 2016-017.	84-007 84-033 84-063	Could not be determined	Partially Completed	PRDE is in the process of acquiring a completely new Student Information System with an integrated Financial Aid module. During the Fiscal Year 2016-2017, PRDE implemented a Student Information System (SIS) within the institutions and training was provided to all the personnel including those working with the SFA Program. The SIS implementation was supposed to improve the Title IV funds management and financial procedures, however, the results obtained did not meet the required expectations. The new system will be fully implemented during the fiscal year 2019-2020.  USDE determined that the effectiveness of the institution's corrective action should be evidenced through the elimination of this finding in future audits.	6/30/2020	1) Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education 2) Kelvin J. Pagan Lo Lue, Technical Education Program Director	(767) 773-6666 (767) 773-6666	Per Final Audit Determination (FAD) letter of June 10, 2019, USDE states that the effectiveness of the institution's corrective action should be evidenced through the elimination of this finding in future audits.

Finding Number	Finding (condition found)	CFDA #	Discretion Costs	Status	Management Corrective Action plan	Anticipated Completion date	Responsible Officer	Contact number	USDE Determination of finding
2017-014	The PRIDE did not timely submit the Final Federal Status Report (hereinafter "FSR"). The final FSR originally due on December 31, 2016, was submitted on March 28, 2017.	84.309	None	Completed	PRIDE's management is aware of the importance of timely submitting the FSR's to the USDE. On an annual basis, the program's internal control procedures are reviewed to ascertain compliance and timely filing of all required federal reports and to improve the processes related to the federal funds management. Even though the program could not comply with the required submission date, the report was submitted subsequently. PRIDE continues monitoring compliance with the timely submission of required federal reports.	11/01/2018	1) Yarin M. Dieppa-Pereira, Auxiliary Secretary for Federal Affairs	(787) 773-2603	USDE has not issued a determination for this finding.
2017-015	The PRIDE did not submit electronically the Enrollment Reporting Roster File updated to the National Student Loan Data System (NSLDS) and other information as required by federal regulations during fiscal year 2016-2017.	84.037 84.033 84.063	None	Partially Completed	As a measure to control the quality and performance of the process, from FY 2016-2019 and prospectively, the PRIDE Central Level will conduct monthly monitoring visits to the units to confirm that the process is being followed and the accuracy of the process is maintained. This process will identify any deficiencies and provide the support and resources needed in order to remedy any errors before the next required report is submitted.  The impact of Hurricane Maria on September 20, 2017, also affected the institution's operations and delayed many transactions. In addition, afterwards Maria some of the institution's personnel resigned and moved to the USA causing a delay in the process of hiring and training new personnel.  USDE determined that the effectiveness of the institution's corrective action should be evidenced through the elimination of this finding in future audits.  PRIDE is establishing standard monitoring procedures to the Financial Aid Office personnel, who are responsible for the Enrollment Reporting, to ascertain the appropriate procedures are being followed and the reports are accurate and consistent with PRIDE records reported to the National Student Loan Data System (NSLDS).  In action, PRIDE is in the process of acquiring a completely new Student Information System with an integrated Financial Aid module. During the Fiscal Year 2016-2017, PRIDE implemented a Student Information System (SIS) within the institution and training was provided to all the personnel including those working with the SFAA program. The SIS implementation was supposed to improve the time for funds management and financial procedures. However, the results obtained did not meet the required expectations. The new system will be fully implemented during the fiscal year 2019-2020.	6/30/2020	1) Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education 2) Kelvin J. Pagán-Luz, Technical Education Program Director	(787) 773-6666	For Final Audit Determination (FAD) letter of June 30, 2019, USDE states that the effectiveness of the institution's corrective action should be evidenced through the elimination of this finding in future audits.
2017-016	The PRIDE did not timely submit the Quarterly Grant Annual Report for the quarter ended December 31, 2016. The report was due on January 6, 2017, but was not submitted until January 12, 2017.	45.930	None	Completed	PRIDE disagrees with the auditors finding in part. PRIDE has worked towards complying with the Federal requirement and has accomplished a lot through in the recent year. As a precautionary measure given the distressing situation Puerto Rico faced in the aftermath of Hurricane Maria and Maria, DEPR proactively requested a highly comprehensive waiver for all reports that the program required for FY 17-18. This communication was made available to the auditors at the same time Quarterly Actual reports and SPR report were shared.  DEPR also entered into communication with the federal staff of the RMLIS program regarding Puerto Rico's timely reporting, to which they replied that PRIDE has been very communicative in recent years around the quarterly actual reports, and RMLIS has no concerns about the timeliness factors cited during the current time period.  PRIDE made an outstanding effort to have personnel available to submit this report on a timely basis.	12/30/2018	1) Angeline Gonzalez-Martinez, Auxiliary Secretary of Academic Affairs 2) Mary J. Harver, Program Director	(787) 773-0660	USDE has not issued a determination for this finding.
2017-017	During the audit fieldwork period, the PRIDE did not provide the Aggregate payroll cost report based on actual time and effort contribution by employee. This report is required to support PRIDE's allocation of federal-funded salaries by program or grant. Prior to the release of the auditor's report, the PRIDE provided an aggregate effort and payroll report. However, this report is only by program total and provides no other supporting document. As a result, the auditors were not able to test the allocation of payroll expense to the corresponding federal programs.	84.010 84.287 84.309 84.567 84.013	Could not be determined	Partially Completed	PRIDE is currently evaluating the Time Distribution Module design in order to establish a procedure by which the module can generate an Aggregate Cost Report and at the same time, provide all required adjustments to meet CFDA on an "on-demand" basis. PRIDE is currently performing enhancements to the Time Distribution Module. Once the enhancements are complete, a series of tests will be performed to validate the accuracy of the data and be able to issue the Aggregate Cost Report.  In addition, before the issuance of financial statements, PRIDE provided to management Time Distribution Analysis performed for the year ended as of June 30, 2017, for the corresponding auditors' assessment.	6/30/2020	1) Eric Pérez, Auxiliary Secretary of Human Resources	(787) 773-3476	USDE has not issued a determination for this finding.
2017-018	To test compliance with the eligibility and school attendance area requirements for this program, the auditors randomly selected several of fully-enrolled Targeted Assistance Schools (hereinafter "TAS") to test. The amount of funds that a school receives is determined by the number of children from low-income families that live in the school attendance area. The School Director is responsible of posting into the Student Information System (hereinafter "SIS") the socioeconomic data captured. The PRIDE gathers socioeconomic student data such as student name, age, family income and family members and later the Planning Division and Office of Federal Affairs determine the poverty level percentage of each school.  The following matters were noted during the auditor's procedures:  1. During the visit to seven schools, a sample of forty randomly selected students from the register of eligible and served students were selected for review, noting the following discrepancies:  In three instances, the income reported in the socioeconomic student's data form did not agree with the information entered in the SIS data system.  In eight instances, the family's composition included in the socioeconomic student's data form did not agree with information entered in the SIS data system. In one instance, the student's date of birth included in the socioeconomic student's data form did not agree with information entered in the SIS data system.  In one instance, the service offered to the student was duplicated in the SIS Data System.  In one instance, the "Plan Comprehensivo Escolar Auténtico" (hereinafter "PCEA") was not approved by all required parties.  2. In three out of the seven schools visited, the auditor physically verified the socioeconomic student's data forms and compared them with the socioeconomic student's data forms entered in the SIS data system, noting an aggregate discrepancy of one hundred and thirty-seven instances.  3. From one hundred twenty-seven socioeconomic student's data forms physically examined, the auditor identified the following:  In six forms, the student's name was missing.  In seven forms, the parent's signature was missing.  In eight hundred ninety-five forms, the teacher's signature was missing.  A similar finding was reported last year as finding 2016-005.	84.010	None	Partially Completed	During school year 2017-18, PRIDE implemented an electronic pre-enrollment process, facilitating the flow of information and assuring a reduction of human error in the student and its family information gathering process. This electronic enrollment process is facilitating various components of the PRIDE education system. It gives PRIDE visibility to accurate information for real time decision making, streamlining the internal processes of the Department of Education, among many other. This registration system allows parents to pre-enroll students online and register their child's personal information.  Even though this electronic process was implemented during FY 2017, families experienced that much of the regular paper procedures were transferring to paperless at the same time. Therefore, PRIDE was in the midst of the implementation of the electronic process when families certified the socioeconomic study data for school year 17-18, and they decided to complete this information by paper. PRIDE used next school year pre-enrollment process to gather the parent's concerns about the new electronic procedures to enhance the platform. In addition, PRIDE will hold an outreach campaign to ensure this process was not comfortable for all our families in the next school year's pre-enrollment process. For this purpose, the Central Level Planning Office, the Federal Affairs Office and the Title I Program Coordinator have begun making the corresponding updates to the system and its required testing.  PRIDE has been encouraging parents to complete the online enrollment process for the new Academic Year 2019-2020. Families will be able to use a computer at the school to begin the pre-enrollment process. However, paper forms will be available only for parents without computer or internet access, and School Directors will be responsible to submit any student information to the system. PRIDE expects a reduction in this type of observation during next fiscal year.	6/30/2020	1) Yarin M. Dieppa-Pereira, Auxiliary Secretary of Federal Affairs 2) Ileana Cordero, Title I Part A Coordinator	(787) 773-2093	USDE has not issued a determination for this finding.

Finding Number	Finding (condition found)	CFDA #	Questioned Costs	Status	Management Corrective Action Plan	Anticipated Completion Date	Responsible Officer	Contact number	USOE Determination of Finding
2017-016	In testing compliance with sub recipient monitoring requirements, the auditor randomly selected a sample of ten Administrative Reviews (ARs) under the school food authority and one independent sponsor noting the following:  1. In three instances, the State Agency provided written notification of the review findings to the school food authority's director or authorized representative beyond thirty days after the next conference of each administrative review.  2. The State Agency conducted eighty-five administrative reviews during the Fiscal Year 16-17, but only thirty-three summaries of the administrative reviews result performed were posted on the State's agency's public web site.	10 555 10 556	None	Completed	During the internal controls/compliance testing procedures of sub-recipient monitoring for the Child Nutrition Cluster, auditors noted several exceptions as described in three of them. The State Agency provided written notification of the review findings to the school food authority's director or authorized representative beyond thirty days after the next conference of each administrative review.  On the other hand, in the second instance, PRIDE partially published a summary of the most recent results of the administrative reviews, which must be easily available to the public.  PRIDE is committed to comply with all federal and state regulations applicable to the programs within the Agency, including Child Nutrition. Accordingly, the Agency has taken steps to strengthen internal controls, develop guidelines and procedures to complete reports and other tasks related to observe the requirements. As we recognize this is an on-going process, the program continues to reinforce policies and procedures by training all necessary personnel on the timeliness of the procedures. In addition, the program has undergone administrative/personnel changes in order to impact areas of need.  After the second noted exception, PRIDE verified the request made to the IT Office and noticed that the request was made appropriately. As a result of the verification, we acknowledge that there was a technical error while uploading the document that contains part of the results of the reviews. For this year, PRIDE is integrating another control in order to validate that the upload is correct and published complete as required.	6/30/2019	1) Lourdes H. Garcia Santiago, Child Nutrition Program Director	(787) 773-6271	USOE has not issued a determination for this finding.
2017-020	From a sample of twenty-five student withdrawals selected for testing, the auditors noted the following:  In nine instances, the PRIDE did not perform the post withdrawal disbursements within the established 45-day timeframe as required by federal regulations (between 30 days up to 150 calendar days). A similar instance was reported last year in finding 2016-016.  In nine instances, no evidence of the calculation of the Title IV funds earned by the students as of the withdrawal date was found.  In six instances, no evidence was available for examination regarding post withdrawal disbursements (actual disbursement or credit to the student account) to students.  In six instances, differences were noted between the net post withdrawal amounts earned by the student (the disbursement evidence examined in the student files, and the SFLEI (the PRIDE's accounting software).	84 007 84 033 84 053	\$3,508	Partially Completed	PRIDE understands this finding and continue working to eliminate this type of instances.  The impact of Hurricane Maria on September 20, 2017 affected the timely recognition and validation of the students' financial data and delayed many financial transactions. In addition, afterwards Hurricane Maria some of the employees' presence of resigned and moved to the USA causing a delay in the process of hiring and training new personnel.  PRIDE is in the process of acquiring a completely new Student Information System with an integrated Financial Aid module. During the Fiscal Year 2016-2017, PRIDE implemented a Student Information System (SIS) within the institution and training was provided to all the personnel involving these working with the SFA Program. The SIS implementation was supposed to improve the Title IV funds management and financial record-keeping. However, the results obtained did not meet the required expectations. The new system will be fully implemented during the fiscal year 2019-2020.  PRIDE will continue improving its internal control to ensure that students' disbursements are made on a timely basis and records are maintained for each student with all the required documentation.  In addition, USOE recently accepted a PRIDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRIDE partially disagrees. We expect that this process will allow PRIDE to provide additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day-to-day operations to provide the most high-quality service and education to our students.  USOE determined that the effectiveness of the institution's corrective action should be evidenced through the elimination of this finding in future audits.	6/30/2020	1) Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education 2) Kelvin J. Pagán La Luz, Technical Education Program Director	(787) 773-6658	Per Final Audit Determination (FAD) letter of June 10, 2019 USOE states that the effectiveness of the institution's corrective action should be evidenced through the elimination of this finding in future audits.  In addition, an appeal process is undergoing for all matters related to this finding. Therefore no final determination has been received from USOE yet.
2017-021	From a sample of fifty-seven Pell Grant recipients examined the auditors noted the following:  In fourteen instances, the amounts disbursed by the PRIDE were not the same amounts as reported in the Pell Disbursements list records.  In four instances, the students were not included in the Pell Disbursement list records even though the students received Pell disbursements for fiscal year 2016-2017.	84 007 84 033 84 053	None	Partially Completed	PRIDE has in place adequate monitoring controls to ascertain accurate reporting of Pell payment data to the US Department of Education through the COG system.  Regarding the instances in which the amounts disbursed by the PRIDE were not the same amounts as reported in the Pell Disbursements list records, the difference is related to adjustments to the student's accounts and/or disbursements to students that were still underway at the time of the audit. PRIDE works to correct these transactions on an ongoing basis and report them within the COG system.  Regarding the instances in which the students were not included in the Pell Disbursement list records even though the students received Pell disbursements for fiscal year 2016-2017, PRIDE corrected these instances and provided the appropriate revision to the auditors. As discussed above, the students' accounts reconciliation process is performed by PRIDE in an ongoing basis and changes are reported through the COG system as soon as they are identified.  PRIDE is acquiring a new information system that serves this and the other findings. We understand that future instances will be considerably reduced. Also, we emphasize that this topic among many other will be covered in the technical assistance session to be held between September and November 2019 that PRIDE is coordinating with USOE as a result of a recent Program Review.  In addition, USOE recently accepted a PRIDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRIDE partially disagrees. We expect that this process will allow PRIDE to provide additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day-to-day operations to provide the most high-quality service and education to our students.  PRIDE will continue improving its internal control to ensure that financial data reported is accurate, complete and reliable, and Pell payment data is reported to the US Department of Education through the COG system on a timely basis.  USOE determined that the effectiveness of the institution's corrective action should be evidenced through the elimination of this finding in future audits.	6/30/2020	1) Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education 2) Kelvin J. Pagán La Luz, Technical Education Program Director	(787) 773-6658	Per Final Audit Determination (FAD) letter of June 10, 2019 USOE states that the effectiveness of the institution's corrective action should be evidenced through the elimination of this finding in future audits.  In addition, an appeal process is undergoing for all matters related to this finding. Therefore no final determination has been received from USOE yet.
2017-022	From a sample of sixty students who received Title IV funds during the period under audit, the auditors noted that in thirty-three instances, no evidence was available for review to support that the students maintained satisfactory academic progress in risk or for course of study.	84 007 84 033 84 053	Could not be determined	Partially Completed	On FY 2016-2017 PRIDE implemented the Student Information System (SIS) within the PRIDE's post-secondary institution. The SIS is a Web Based System designed for ease of use and contains modules to help manage the record-keeping process such as student demographics, enrollment, registration, scheduling, attendance, grading, discipline, transcript, and transfer records builder. As part of the implementation process, training was provided to all the personnel working with the SFA Program at the institution. This training continued periodically through FY 2017-2018 and will continue through FY 2018-2019, as necessary.  Although PRIDE's internal procedures do not require the institution to maintain a copy of the students' satisfactory academic progress in the students' files, the Student Financial Aid Office staff appropriately evaluate each student's academic progress to determine eligibility for SFA funds. If a non-compliance is identified, the student is informed immediately and the awarding process of SFA funds is performed in accordance to the federal regulations and PRIDE's policies.  PRIDE is acquiring a new information system that serves this and the other findings. We understand that future instances will be considerably reduced. Also, we emphasize that this topic among many other will be covered in the technical assistance session to be held between September and November 2019 that PRIDE is coordinating with USOE as a result of a recent Program Review.  In addition, USOE recently accepted a PRIDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRIDE partially disagrees. We expect that this process will allow PRIDE to provide additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day-to-day operations to provide the most high-quality service and education to our students.  PRIDE will continue improving its internal control to ensure that financial data reported is accurate, complete and reliable, and Pell payment data is reported to the US Department of Education through the COG system on a timely basis.  USOE determined that the effectiveness of the institution's corrective action should be evidenced through the elimination of this finding in future audits.	6/30/2020	1) Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education 2) Kelvin J. Pagán La Luz, Technical Education Program Director	(787) 773-6658	Per Final Audit Determination (FAD) letter of June 10, 2019 USOE states that the effectiveness of the institution's corrective action should be evidenced through the elimination of this finding in future audits.  In addition, an appeal process is undergoing for all matters related to this finding. Therefore no final determination has been received from USOE yet.
2017-023	From a sample of sixty students who received Title IV funds during the period under audit, the auditors noted the following:  In two instances, no evidence of Pell Grant disbursements was found in SFLEI (PRIDE's accounting software) nor in the student's file, even when the student population roster provided to the auditors reported that these students had received Pell grants for the award year 2016-2017.  In three instances, the Pell Grants disbursed did not agree with the Pell amounts as based on the 2016-2017 Pell Payment Schedules Tables. A similar instance was reported last year as finding 2016-014.	84 007 84 033 84 053	\$1,915	Partially Completed	As a measure to confirm the quality and performance of the process, from FY 2018-2019 and prospectively, the PRIDE Central level will conduct monthly monitoring visits to the units to confirm that the process is being followed and the accuracy of the policies is maintained. This process will identify any deficiencies and provide the support and resolutions needed in order to remedy any errors.  PRIDE is acquiring a new information system that serves this and the other findings. We understand that future instances will be considerably reduced. Also, we emphasize that this topic among many other will be covered in the technical assistance session to be held between September and November 2019 that PRIDE is coordinating with USOE as a result of a recent Program Review.  In addition, USOE recently accepted a PRIDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRIDE partially disagrees. We expect that this process will allow PRIDE to provide additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day-to-day operations to provide the most high-quality service and education to our students.  PRIDE will continue improving its internal controls to ensure that procedures for awarding SFA funds to students are performed as established by the US Department of Education and that students' disbursements are made on a timely basis.	6/30/2020	1) Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education 2) Kelvin J. Pagán La Luz, Technical Education Program Director	(787) 773-6658	Per Final Audit Determination (FAD) letter of June 10, 2019 USOE determined that the effectiveness of the institution's corrective action should be evidenced through the elimination of this finding in future audits.  In addition, an appeal process is undergoing for all matters related to this finding. Therefore no final determination has been received from USOE yet.



Finding Number	Finding (condition, event)	CFDA #	Questioned Costs	Status	Management Corrective Action plan	Anticipated Completion date	Responsible Office	Contact number	USOE Determination of finding
2017-024	During the required subsequent monitoring procedures, the auditor noted that the PRIDE sub-granted program funds in excess of \$25,000 to several institutions of higher education (eligible partner/first) on a competitive basis in accordance with 20 USC 6662 and did not file the required reports under the Federal Funding Accountability and Transparency Act of 2006 during the fiscal year 2016-2017. The institutions of higher education are in charge in developing and implementing activities designated to improve the quality of instruction in mathematics and science in the State's elementary and secondary schools.	84.365	None	Completed	<p>PRIDE disagrees with this finding. In determining whether an agreement between a pass-through entity and another non-federal entity casts the latter as a subrecipient or a contractor, the substance of the relationship is more important than the form of the agreement. All of the characteristics listed above may not be present in all cases, and the pass-through entity must use judgment in classifying each agreement as a subaward or a procurement contract.</p> <p>The Mathematics and Science Partnership was authorized under Title II, Part B, and Sections 2201-2203 of the Elementary and Secondary Education Act, as amended by the Consolidated Appropriations Act of 2010. The statute provides formula grants to State Educational Agencies (SEAs). SEAs then award subawards on a competitive basis to partnerships between Local Educational Agencies (LEAs) and Institution of Higher Education (IHEs). Partnerships can also include SEAs, IHEs, and a high-need LEA.</p> <p>At no point does the statute consider SEAs or LEAs entering into a contractor relationship with an IHE. However, the statute assumes that recipients of funds operate in a traditional SEA/LEA system. PRIDE does not operate in a traditional SEA/LEA system. Instead, PRIDE operates a unitary system where the SEA and the LEA are the same non-federal entity. As such, PRIDE is the only LEA in Puerto Rico, and it is responsible for both SEA and LEA functions. Due to the nature of a unitary system, there are no LEA- or IHE-partnerships in which PRIDE can subaward MSP funds. Instead, PRIDE contracts with IHEs on the island to provide services to teachers at PRIDE schools.</p> <p>The IHEs providing services are not provided with a subaward agreement, as defined in 2 CFR § 200.331(a). Instead, PRIDE runs a competition for proposals from IHEs to provide specific training services to teachers identified by PRIDE. PRIDE enters into contracts with the IHEs to provide workshops and other services.</p> <p>Payments to IHEs are subject to providing the agreed-upon service. IHEs submit invoices once workshops are completed. Upon verification, PRIDE pays the invoice based on the service provided. At no time do the IHEs determine which individuals are eligible for services. PRIDE identifies the individuals, and the agreement between PRIDE and the IHEs identifies those individuals.</p> <p>The services provided by the IHEs, as well as the payments to those IHEs, are subject to the terms of the agreement. The IHEs do not hold any authority for determining eligibility for services, and they have no programmatic decision-making authority. Instead, they provide services for the sole benefit of PRIDE. Based on these factors, PRIDE uses its judgment to define the relationship with the IHEs under MSP as that of a contractor receiving a contract.</p> <p>Regarding the FFATA Reporting Requirements, prime awardees (those receiving funds directly from a federal agency) must report on subawards of \$25,000 or more by the end of the month following the month in which the subaward is made. However, this only applies to a federal grant recipient when they are awarding subawards to a subrecipient. These reporting requirements do not apply to prime grant awardees when they are contracting for services.</p> <p>Therefore, due to the nature of the relationship between PRIDE and the IHEs under MSP, PRIDE's professional judgment is that the IHEs are contractors and not subrecipients. Although MSP does not consider contractor relationships in its statutory framework, PRIDE's status as a unitary system with a single LEA does not fit neatly within the intended MSP framework. Absent a determination from the U.S. Department of Education that PRIDE cannot enter into contracts for services under MSP, or absent any additional information that would indicate otherwise, the federal rules say that if it is PRIDE's judgment that the IHEs are contractors for services under MSP, there is no reason to identify the MSP agreements between PRIDE and the IHEs as anything other than contracts. Because contracts for a prime grant awardee are not subject to the FFATA reporting requirements, there is no reason for PRIDE to submit such data on these contractual relationships unless there is an official determination to the contrary.</p>	11/01/2016	1) Yohani M. Deyssa, Auxiliary Secretary of Federal Affairs 2) Wanda Vázquez, Title II, Part B Coordinator	(787) 723-2003	USOE has not issued a determination for this finding.

# Puerto Rico Department of Education

## Corrective Action Plan Report

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**Finding Number: 2018-001**

*Condition:*

As part of our audit procedures, we obtained from Teachers Retirement Systems and Employees' Retirement Systems the required confirmation and identified that no payments were issued regarding employer's contributions during the year ended June 30, 2018. The statement of cash receipts and disbursements includes amount disbursed as follows:

<b>CFDA</b>	<b>Description</b>	<b>Amount</b>
<u><i>Federal Programs:</i></u>		
84.027	Special Education Grants to State	\$ 279,700
84.010	Title I Grants to Local Educational Agencies	110,222
84.048	Career and Technical Education - Basic Grants to States	43,571
84.173	Special Education Preschool Grants	21,614
84.367	Supporting Effective Instruction State Grants	14,437
10.560	State Administrative Expenses for Child Nutrition	12,308
84.002	Adult Education - Basic Grants to States	5,415
10.559	Summer Food Service Program for Children	3,468
10.558	Child and Adult Care Food Program	3,085
84.196	Education for Homeless Children and Youth	2,561
84.377	School Improvement Grants	<u>1,736</u>
		<u>498,117</u>
<u><i>Others:</i></u>		
N/A	Schoolwide	9,700,158
N/A	School Food Authority	351,467
N/A	Consolidated Funds	<u>139,884</u>
		10,191,509
N/A	State Funds	<u>4,892,239</u>
	Total others	<u>15,083,748</u>
Total payments - 2018		<u>\$ 15,581,865</u>

*Management response:*

Payroll information recorded in the PRDE accounting system arises directly from the Puerto Rico Treasury Department ("PRTD"). The information is received in a database which is replicated in the PRDE accounting system. Subsequently the information entered in the system is properly reconciled with the PRTD accounting system to validate the accuracy of the information.

Transactions included above are currently being evaluated by the PRTD and PRDE, in order to determine if in effect part of these balances are questionable. Any adjustment resulting from this matter must be analyzed and approved by the PRTD, since that agency is ultimately responsible for these transactions.

Expected completion date: December 30, 2019

Contact persons: Osvaldo Guzmán López, Undersecretary of Administration

# Puerto Rico Department of Education

## Corrective Action Plan Report

**Finding Number: 2018-002**

*Condition:*

As part of our audit procedures, we obtained an accounts receivable listing and identified duplicated payments issued during the year ended June 30, 2018, distributed as follows:

<b>CFDA</b>	<b>Description</b>	<b>Receivable</b>	<b>Balance</b>
<u><i>Federal Programs:</i></u>			
84.027	Special Education - Grants to State	\$	40,239
84.010	Title I Grants to Local Educational Agencies		20,759
45.310	Grants to States		10,496
84.048	Career and Technical Education		7,164
84.367	Supporting Effective Instruction State Grants		4,887
			<u>83,545</u>
<u><i>Others:</i></u>			
N/A	Schoolwide		1,563,632
N/A	School Food Authority		88,186
N/A	Consolidated Funds		18,532
			<u>1,670,350</u>
N/A	State Funds		<u>2,941,707</u>
	Total others		<u>4,612,057</u>
Total duplicated payments - 2018		\$	<u>4,695,602</u>

Accounts receivable arise from overpayments or merchandise returns to suppliers, improper salary payments, payments to employees without accumulated vacations or sick leave balances, and others. Accounts receivable are recorded in a subsidiary ledger when detected or identified. However, the expenditures in the related funds are reversed when amounts are actually collected. Accordingly, expenditures reported as federal financial assistance programs costs in the schedule of expenditures of federal awards include unallowable costs for those amounts that remain uncollected at the end of each year.

A similar finding was reported last year as item 2017-010

*Management response:*

PRDE has worked towards complying with this Federal requirement and has accomplished a lot through the recent years and continues to be engaged with the prioritization of resolving the issues noted within this finding.

Due to the fact that approximately 98% of the outstanding balance of accounts receivable relates to improper payroll payments PRDE continues to work on the project for the implementation of an automated process that will prevent improper salary payments, overpayments and/or payments to employees without accumulated vacations or sick leave balances, among others. As the integration tests of this processes is coming to an end, PRDE expect to start phase one of implementation by installing the system and have it fully functional in the next fiscal year, primarily impacting central level employees and prospectively each and every regional office and schools.

PRDE's Human Resource Office has also developed and implemented a new policy of Time, Attendance and Tardiness, effective July 2019. That same month, during the Annual PRDE School Director's Convention, they coordinated and held an extensive training session about its applicability and severity to more than 900 school directors who will now be entrusted to transfer that knowledge among other employees of their respective schools. In relation to the timely collection of accounts receivable balances, Payroll and Finance units have begun working on revisions to existing procedures in order to: (a) promptly identify existing employees without accumulated vacation or sick leave balance; (b) calculate any overpayments; and (c) establish payment plans to collect balances owed through payroll deductions.

## **Puerto Rico Department of Education Corrective Action Plan Report**

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Regarding the questioned costs, the auditors were unable to specifically identify the underlying causes that led to each account receivable balance. As a result, PRDE is unable to validate whether the underlying causes of these accounts receivable balances represent violations of the Federal law, State law, or neither.

Expected completion date: June 30, 2020

Contact persons:           Osvaldo Guzmán López, Undersecretary of Administration  
                                  Evelyn Rodríguez Cardé, Director of Finance  
                                  Judith Parrilla Rivera, Accounts Receivable Supervisor

# Puerto Rico Department of Education

## Corrective Action Plan Report

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**Finding Number: 2018-003**

*Condition:*

While obtaining our understanding of the state's policies and procedures in place at the Entity's Central Office and Public Schools in relation to property and equipment, we were informed that the required annual physical inventory has not been performed by the PRDE's Property and Equipment Division (the Property Division) during the last two years. In addition, we noted that property records do not include all elements required by the federal government, such as the percentage of federal participation in the cost of the property and the use and condition of the property.

As a result of not performing physical inventory and reconciliation procedures, the following matters were identified:

- During our audit procedures we noted that the list of disbursements from the PRDE for the year ended June 30, 2018 and the PRDE property records did not agree to properly reflect the acquisition of all property purchased during the year. Accordingly, PRDE failed to maintain a complete and accurate property records: in 70 instances property records were not in accordance with the list of disbursements resulting on a difference of \$317,894 between disbursements made and the property records.
- We visited each location identified on PRDE's property records for the items selected for inspection and noticed that in three (3) instances of sixty-two (60) items selected, the form Property-in-Use (Form SC-1211), used to document the receipt/acquisition of equipment, was not available by the asset custodian for examination at the asset location school, as established by the policy. Subsequent to our visit to each location, forms were provided by the PRDE's Property Division at the PRDE's central offices for our examination.
- In eight (8) instances of one hundred and twenty-six (126) items, we noted that PRDE's property records were not updated to indicate the current custodian of the property.

*Management response:*

PRDE continues to be engaged with the prioritization of resolving the issues noted within this finding and the required annual physical inventory.

After performing significant modifications to the Asset Management Module in June 2017, we were hit by hurricanes Irma and María, causing a notorious delay in the timeline we had in place to perform assets and inventory reconciliations. As a result, the Property Management Office started the process of taking physical inventory in April 2018 and can now report a 95% of completion. The expected date to finalize the inventory taking is October 2019.

Besides the efforts of completing the physical inventory, PRDE is performing additional modifications to the Asset Management Module within the PRDE's Accounting System (SIFDE, acronym in Spanish) to present the percentage of federal participation in the cost of the property and the use and condition of the asset. Also, the improved Asset Management Module will allow PRDE to produce the annual SC795 report, which is required by the PR Treasury Department. We expect this enhancement to be in place by next fiscal year.

PRDE will continue improving and reinforcing its internal controls to ensure that its Property Management Office complies with its own internal procedures, demonstrating that disbursements and property transactions comply with Federal Law, and applicable federal and state regulations. We are confident that the implementation of this measures will lead the Asset Management Office to continue minimizing the instances observed by the auditors in this finding.

Expected completion date: December 30, 2019

Contact persons: Osvaldo Guzmán López, Undersecretary of Administration  
Nilda Z. Morales Vázquez, Director of Asset Management and Property Division

# Puerto Rico Department of Education

## Corrective Action Plan Report

Finding Number: 2018-004

### Condition:

In testing compliance with the requirements related to the eligibility for individuals of this program, we selected a random sample of thirty-six (36) participants from the Child Count Report Raw Data for the school year 2016-2017, including participating students up to December 31, 2017, submitted during fiscal year 2017-2018 to the Federal agency and noted the exceptions summarized below (some of the instances relates to internal control and others to both internal controls and compliance):

1. The following internal controls deficiencies were noted during our procedures:

Description	Instances
Initial evaluation form not performed within the 30 days of registration, as stated in PRDE special education written procedures.	1
Initial evaluation form not found in student file.	3
Initial eligibility determination form performed 60 days after participant registration, as stated in PRDE special education written procedures.	5
Initial eligibility determination form not found in student file.	1
Initial eligibility determination form not dated, as stated in PRDE special education written procedures.	1
Initial eligibility determination form not signed by required parties, as stated in PRDE special education written procedures.	1
Registration form not signed by required parties, as stated in PRDE special education written procedures.	3
Initial evaluation form dates do not agree among "Mi Portal Especial" (MiPE - program system from which child count report is derived) and registration form.	3

2. The following internal controls and compliance deficiencies were noted during our procedures:

Description	Instances
Individualized education program (IEP) form and supporting information related to the IEP for the relevant period of the report under examination (referenced above) not found in student file.	2
Triannual eligibility determination form nor analysis of existent information sheet for the relevant period of the report under examination (referenced above) not found in student file.	3
Parent (legal tutor) confirmed that student is not a participant of special education.	1

### Management response:

The Puerto Rico Department of Education (PRDE) does not agree with the totality of the instances included in the finding issued by the auditors, nor with the established effect; or that PRDE is not providing comments on the specific instances identified in this answer. Likewise, we have noted that, within the finding presented, the year of the report on the child count is not the same year for which the different data and forms were reviewed. This has been clarified in the various meetings that have been held with the auditors, but the auditors have maintained their position to document the incorrect information while auditing the PRDE. The child count provided to the auditors is 2017-2018, corresponding to the audit period.

On the other hand, during the audit, the auditors were fully orientated on the dates on which a report of the child count is submitted. In addition, the director of the data area for the Special Education program and who is responsible for preparing this report, clarified that the report delivered would correspond to the audit year, given that it was performed and submitted at some point during the same year. Independently, the auditors have documented the information included in this report for the year 2016-17, due to the cut-off date of this report, which is during this first half of the 17-18 audit year (December 2017). As explained to the auditors, the aforementioned date corresponds to the cut off of the data, as required for the said report.

# **Puerto Rico Department of Education**

## **Corrective Action Plan Report**

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In the same way, PRDE wants OSEP to know that given the cut-off date for this report (child count) which was December 2017, the auditors did not accept any evidence or document on concerning eligibility, services and compliance, among others, from the second school semester and within the audit period (they did not accept information and documents from January 1<sup>st</sup> to June 30, 2018). By not accepting this valid and reliable data, PRDE was unable to demonstrate compliance, cutting the date of the audit unilaterally in half.

Additionally, the appropriate responses for each of the instances in this document have been provided to the auditors, including the evidence of compliance for each. PRDE has held meetings with the auditors and the managers of the external firm performing the audit, to raise the program's concern with the issue presented. The program personnel made every effort to talk about the concerns with these tests and the determinations made by the auditors around Special Education procedures.

Also, the Program Manual was provided to the auditors, where the dates on which the various processes must be fulfilled with the students of the program are well established in order to comply. Likewise, auditors were given access and training to search the Mi Portal Especial (MiPE) system, in case they needed to look for any additional documents and/or dates, since the program has worked hard with the digitalization of processes, evidences and records, and although not yet fully implemented, both files (the physical and digital) complement each other.

We emphasize that the program has worked hard in the area of compliance to achieve a higher percentage of execution according to local and federal applicable regulations. Moreover, in a very transparent way, during the meetings held with the auditors, PRDE accepted that for some of the instances, the PRDE had no comments, supporting documentation, Program Determination Letter (PDL) or evidence that could eliminate the instance. However, the auditors maintained their position to not revise the information and documentation for these other instances.

As such, PRDE will proceed to answer each of the instances indicated as either internal control and/or compliance issues. In addition, PRDE is informing OSEP that we have the evidence readily available to be examined by any officer that requests it.

### **Internal control deficiencies:**

#### **Instance 1: In one case, the auditors indicated that the initial evaluation form was not performed within 30 days of registration.**

The program understands that in order to test internal controls, the sample the auditors select must include students who enrolled in Special Education during the audit period and up to 2 years prior, when it is required to perform the triennial evaluation. For this case, the student's file was verified, and it was found that this student's registration was 15 years ago. The student was registered on November 2002.

Since the student came from Head Start, the evaluation considered is from June 18, 2002, prior to the registration date because it was performed at the Head Start and it was valid upon arrival to the federal program to register to receive services. Beyond that, the student's triannual was verified too, which is the requirement to be validated and it was found that the 2017 triannual eligibility determination had been made. The explanations and supporting document were provided to the auditors. However, the auditors determined to not consider our argument nor supporting documentation, but the program is convinced that is in compliance. The supporting evidence is available for review upon request.

#### **Instance 2: In three cases, the auditors indicated that the initial evaluation form was not found in student file.**

In order to test the initial evaluation requirement, they must select students who enrolled in the program during the audit period 17-18 up to students that were enrolled 2 years prior. This argument applies to all initial procedures.

For this first case, the record was re-built from 2017 forward to ensure services to the eligible student. Therefore, the original documents are not in the file. However, the current triannual eligibility determination is proof that the determination was made again and the participating student remains eligible, so there is no harm in this case.

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### **Corrective Action Plan Report**

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For the second case, the current triannual eligibility determination is proof that the processes are being performed and that the participating student remains eligible. As such, there is no harm in this case. In relation to the last case, this student graduated in May 2018 (within the audit period). Since they exited from the program, the program is no longer responsible for conducting a tri-annual evaluation and/or determination.

**Instance 3: On five cases, the auditors indicated that the initial eligibility determination form was performed 60 days after participant registration.**

For this instance, the program stands firm in their argument where to prove this criterion, students enrolled in the program in the same year of auditing, or up to 2 previous years, must be selected. In addition, we gave the auditors the PDLs of January 4, 2015 and January 27, 2016, where OSEP did not sustain out-of-time eligibility determination and the initial evaluation of more than 60 days as findings. For the auditors finding (regarding the timeliness), there is a proof that the eligibility determination of these students was made, so they must continue with the services they are eligible for. The PRDE can't return to the initial determination of the students to make them in time, however, it can perform them after identifying that they are necessary and correcting these instances before the auditors identify them.

**Instance 4: In one case, the auditors indicated that the initial eligibility determination form was not found in student file.**

Again, for this instance we stand firm in our argument that to test this criterion, students enrolled in the program within the same year of auditing or up to 2 previous years must be selected. On the other hand, for this specific case, even though the student's initial documents are not on the record, the required documents for the audit period are found and the processes are properly documented within the MiPE system. Likewise, this is one of the cases where the auditors did not accept the evidence from PRDE, where it shows that the corresponding process was carried out on time and within the audit period. Eligibility determination is dated 2018, so it is in effect and the program is in compliance.

**Instance 5: In one case, the auditors indicated that the initial eligibility determination form was not dated.**

For this case, the date of the initial evaluation was validated through minutes. The initial evaluation was carried out on February 10, 2012. In addition, in the PDL of January 4, 2015, OSEP sustain findings related to eligibility determinations that were not signed nor dated. The document provided was on the student record and the program made efforts to deliver it to the auditors, in conjunction with the PDLs. However, the evidence provided by PRDE was not considered by the auditors.

**Instance 6: In one case, the auditors indicated that the initial eligibility determination form not signed by the required parties.**

In this case, the auditors were provided with the PDL of January 4, 2015, where OSEP does not sustain findings related to the lack of signature or date in the eligibility determination. The document was on the record and the program made the efforts to submit it to the auditors, in conjunction with the PDLs, but they did not consider them. The evidence of the document is on file, since the program carried out the corresponding process in 2015. Since this student graduated in 2018, the program is no longer responsible for making the triannual eligibility determination during that same year.

**Instance 7: In three cases, the auditors indicated that the registration form is not signed by the required parties.**

According to the PDL of September 30, 2014, OSEP does not sustain a finding on the absence of the registration form in the participant's record. The purpose of this form is to complete all the student's initial information and begin the corresponding formalities so that eventually, if eligible, they get the services according to their particular needs. This document does not guarantee, establish services, or affect program reporting.

**Instance 8: In three cases, the auditors indicated that the initial evaluation form dates do not agree among "MiPE" (from which the child count is derived).**

For these cases, it was broadly discussed in the meetings that the program has not moved to the digital record entirely



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## **Corrective Action Plan Report**

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and in case of inconsistencies, the physical record prevails. These identified cases are cases of conversion from another system to MiPE. Cases identified with inconsistency at the date of initial evaluation (between physical and digital records) do not affect eligibility, services, nor reporting, as the initial evaluation indicator is reported annually

### **Internal controls and compliance deficiencies:**

**Instance 1: For two cases, the auditors indicated that the IEP form and supporting information related to the IEP for the relevant period of the report under examination was not found in student file.**

The program wants to clarify that in these instances the auditors refer to the alleged fact that the IEPs of these students and the progress reports were not on the record. However, the program has found the following information.

For the first instance, the record had 2016-2017 and 2017-2018 intervention plans. Intervention plans show that the student was offered services. In addition, the student has IEPs dated April 12, 2018. The program identified the need and took the corrective action of developing the IEP, prior to the audit period. However, the auditors did not take this evidence into consideration because they were for the second semester. In addition, this case has evidence of the progress report on the record.

For the second instance, the student has on file intervention plans 16-17 and 17-18, which show that the required service was given to the student. In addition, the case has evidence of the progress report. In addition, since the student exited the program, it is no longer necessary to have an IEP in place nor a Services Plan (because he/she is from private school). In addition, the PDL of 4 June 2015 indicates that OSEP does not sustain a finding regarding lack of signatures and/or dates in the IEP certification. On the other hand, the document titled IEP Certification is an administrative one, not required for eligibility nor provision of student services.

**Instance 2: In three cases, the auditors indicated that the triannual eligibility form nor analysis of existent information sheet for the relevant period of the report under examination was not found**

For one of the cases presented, information was found to eliminate this preliminary finding. In the first, we found and submitted the triannual determination of 2017-18, which is in force. The program identified the need to conduct the triannual of this student and carried out its corrective action processes accordingly to comply, during the covered audit period. Moreover, for this instance, the PDL of 4 January 2015 indicates that OSEP did not sustain findings for not completing a triannual evaluation in the required timeframe.

In the second case, the student record has the 2014 Eligibility Determination and Existing Information Analysis from 2018. However, for this case and the third one, (SIE numbers 24097278 and 24543521) where the updated triannual evaluations were not found in the respective files and the PRDE confirmed that they have not been completed, PRDE is providing follow up to the schools to make sure that the applicable evaluations are performed as soon as possible and included in the student's respective files.

**Instance 3: Parent (legal tutor) confirmed that student is not participant of special education.**

In this case, the auditors allege that the parents of the child indicated that the child was not a participant in the Special Education program. However, the student's IEP was in place for the year of audit and, in addition, the student's Special Education teachers certified that IEP accommodation and services were provided to this student. Therefore, the program understands that this is sufficient evidence to refute the information provided by the parents.

Expected completion date: June 30, 2020

Contact persons: Eliezer Ramos Parés, Auxiliary Secretary for Special Education  
Daiber Carrión Muñoz, Compliance Director  
Irving Feliciano Pulliza, Data Manager  
María del Carmen Cruz Dávila, Monitoring Unit Director

# Puerto Rico Department of Education

## Corrective Action Plan Report

Finding Number: 2018-005

Condition:

The above programs receive funds under the advance cash management method. During our compliance testing, we identified the following deficiencies:

- In three (3) instances of four hundred and twenty-five (425) disbursements selected for testing, the federal funds deposited to the Entity's account were disbursed after the required time frame of three (3) business days of their availability. A similar finding was reported last year as finding 2017-012.

The exceptions noted under each program during the performance of our tests were as follows:

### CFDA No. 84.002, Adult Education - Basic Grants to States

Voucher Number	Check Number	Check Date	Deposit Date	Days over 3 Day Limit	Amount
806643	158104	1/8/2018	12/29/2017	3	\$ 45,925.56

### CFDA No. 84.367, Supporting Effective Instruction State Grants

Voucher Number	Check Number	Check Date	Deposit Date	Days over 3 Day Limit	Amount
847762	179433	6/12/2018	2/7/2018	86	\$ 18,115.01

### CFDA No. 84.048, Career and Technical Education - Basic Grants to States

Voucher Number	Check Number	Check Date	Deposit Date	Days over 3 Day Limit	Amount
815928	410	3/26/2018	3/19/2018	2	\$ 690.50

- In testing compliance and internal control over the cash management requirement for Student Financial Aid cluster the auditors selected a sample of eight (8) draw-downs out of thirty-four (34) draw requests during FY 2017-18 in the G5 system and noted on ninety (90) payments out of 2,952 payments within the eight (8) draws selected, that these were disbursed after the required time frame of three (3) business days of their availability.

### CFDA No. 84.007, 84.033, 84.063 - Student Financial Aid Cluster

Voucher Number	Check Number	Check Date	Deposit Date	Days over 3 Day Limit	Amount
IP006924	00182662	6/26/2018	6/12/2018	7	\$ 1,715.00
IP007191	00182155	6/26/2018	6/12/2018	7	2,365.00
IP007134	00186491	6/26/2018	6/12/2018	7	1,785.00
IP007392	00182676	6/26/2018	6/12/2018	7	2,765.00
IP007390	00193259	6/26/2018	6/12/2018	7	2,110.00
IP007380	00186501	6/26/2018	6/12/2018	7	2,200.00
IP007378	00186512	6/26/2018	6/12/2018	7	2,165.00
IP007375	00193263	6/26/2018	6/12/2018	7	1,175.00
IP007229	00189912	6/26/2018	6/12/2018	7	2,395.00
IP007226	00182668	6/26/2018	6/12/2018	7	2,205.00
IP007100	00182676	6/26/2018	6/12/2018	7	2,845.00
IP006978	00190399	6/26/2018	6/12/2018	7	2,260.00
IP007170	00189917	6/26/2018	6/12/2018	7	2,500.00

**Puerto Rico Department of Education**  
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<b>Voucher Number</b>	<b>Check Number</b>	<b>Check Date</b>	<b>Deposit Date</b>	<b>Days over 3 Day Limit</b>	<b>Amount</b>
IP007056	00189889	6/26/2018	6/12/2018	7	2,440.00
IP007010	00190092	6/26/2018	6/12/2018	7	2,335.00
IP007085	00182274	6/26/2018	6/12/2018	7	2,515.00
IP007082	00182668	6/26/2018	6/12/2018	7	2,485.00
IP007374	00189910	6/26/2018	6/12/2018	7	2,180.00
IP007213	00193255	6/26/2018	6/12/2018	7	2,330.00
IP007160	00186487	6/26/2018	6/12/2018	7	2,500.00
IP007156	00193261	6/26/2018	6/12/2018	7	2,470.00
IP007155	00189902	6/26/2018	6/12/2018	7	2,515.00
IP007334	00182697	6/26/2018	6/12/2018	7	1,780.00
IP007069	00182155	6/26/2018	6/12/2018	7	2,455.00
IP007068	00193266	6/26/2018	6/12/2018	7	2,455.00
IP007067	00193261	6/26/2018	6/12/2018	7	2,455.00
IP007061	00189900	6/26/2018	6/12/2018	7	2,455.00
IP006944	00186487	6/26/2018	6/12/2018	7	1,865.00
IP007349	00186690	6/26/2018	6/12/2018	7	2,215.00
IP006942	00189902	6/26/2018	6/12/2018	7	1,865.00
IP007325	00182663	6/26/2018	6/12/2018	7	2,245.00
IP007352	00189905	6/26/2018	6/12/2018	7	2,200.00
IP007177	00189904	6/26/2018	6/12/2018	7	2,285.00
IP007122	00182274	6/26/2018	6/12/2018	7	2,330.00
IP007116	00182655	6/26/2018	6/12/2018	7	2,540.00
IP007027	00182667	6/26/2018	6/12/2018	7	2,365.00
IP007146	00189891	6/26/2018	6/12/2018	7	2,405.00
IP006896	00186499	6/26/2018	6/12/2018	7	550.00
IP007148	00193257	6/26/2018	6/12/2018	7	2,485.00
IP007343	00186511	6/26/2018	6/12/2018	7	2,765.00
IP007150	00186514	6/26/2018	6/12/2018	7	2,425.00
IP007340	00186705	6/26/2018	6/12/2018	7	1,765.00
IP007337	00182824	6/26/2018	6/12/2018	7	2,200.00
IP007336	00186652	6/26/2018	6/12/2018	7	2,260.00
IP007013	00182822	6/26/2018	6/12/2018	7	2,335.00
IP007324	00190028	6/26/2018	6/12/2018	7	2,290.00
IP007322	00186708	6/26/2018	6/12/2018	7	2,260.00
IP007321	00182690	6/26/2018	6/12/2018	7	2,765.00
IP007318	00186522	6/26/2018	6/12/2018	7	2,335.00
IP007006	00186692	6/26/2018	6/12/2018	7	2,290.00
IP007003	00186587	6/26/2018	6/12/2018	7	2,290.00
IP007002	00189964	6/26/2018	6/12/2018	7	2,290.00
IP007277	00189914	6/26/2018	6/12/2018	7	1,220.00
IP007272	00190092	6/26/2018	6/12/2018	7	2,335.00
IP007271	00182660	6/26/2018	6/12/2018	7	2,290.00
IP007270	00193268	6/26/2018	6/12/2018	7	2,225.00
IP007263	00193250	6/26/2018	6/12/2018	7	2,320.00
IP007256	00182654	6/26/2018	6/12/2018	7	2,255.00
IP007313	00186587	6/26/2018	6/12/2018	7	2,290.00
IP007311	00182670	6/26/2018	6/12/2018	7	1,515.00
IP007307	00186502	6/26/2018	6/12/2018	7	2,290.00
IP006933	00186690	6/26/2018	6/12/2018	7	1,805.00
IP006932	00182655	6/26/2018	6/12/2018	7	1,805.00
IP006930	00189917	6/26/2018	6/12/2018	7	1,790.00
IP007303	00182674	6/26/2018	6/12/2018	7	730.00
IP007300	00186508	6/26/2018	6/12/2018	7	2,830.00
IP007299	00189911	6/26/2018	6/12/2018	7	2,830.00
IP007294	00182666	6/26/2018	6/12/2018	7	2,290.00

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Voucher Number	Check Number	Check Date	Deposit Date	Days over 3 Day Limit	Amount
IP007293	00189964	6/26/2018	6/12/2018	7	2,290.00
IP007289	00189922	6/26/2018	6/12/2018	7	2,830.00
IP007286	00189996	6/26/2018	6/12/2018	7	1,780.00
IP007044	00189912	6/26/2018	6/12/2018	7	2,395.00
IP007043	00182697	6/26/2018	6/12/2018	7	2,395.00
IP007039	00182674	6/26/2018	6/12/2018	7	2,395.00
IP006920	00182652	6/26/2018	6/12/2018	7	1,715.00
IP006918	00186491	6/26/2018	6/12/2018	7	1,275.00
IP007418	00186506	6/26/2018	6/12/2018	7	2,065.00
IP007245	00182662	6/26/2018	6/12/2018	7	2,335.00
IP007033	00182683	6/26/2018	6/12/2018	7	2,365.00
IP006912	00193255	6/26/2018	6/12/2018	7	1,200.00
IP006904	00189905	6/26/2018	6/12/2018	7	1,155.00
IP007404	00189990	6/26/2018	6/12/2018	7	2,110.00
IP007234	00182652	6/26/2018	6/12/2018	7	2,815.00
IP007230	00189889	6/26/2018	6/12/2018	7	405.00
IP006973	00193349	6/26/2018	6/12/2018	7	2,245.00
IP006970	00182665	6/26/2018	6/12/2018	7	2,245.00
IP006969	00189906	6/26/2018	6/12/2018	7	2,245.00
IP007396	00182669	6/26/2018	6/12/2018	7	2,080.00
IP007360	00186499	6/26/2018	6/12/2018	7	2,150.00
IP007208	00182782	6/26/2018	6/12/2018	7	2,380.00
					\$ 195,165.00

- In twelve (12) instances of four hundred and twenty-five (425) disbursements selected for testing, we identified that check clearance date was several days after being issued as further detailed below. Management was unable to prove when the checks were actually released to its intended recipients since checks are delivered by the Puerto Rico Treasury Department. The time elapsed for check clearance may be caused by delays in the deposits made by the supplier, vendor or sub-recipient or by internal delays in the processing of the payment. This deficiency is considered an internal control finding.

The exceptions noted under each program during the performance of our tests were as follows:

### CFDA No. 45.310, Grants to States

Voucher Number	Check Number	Check Date	Check Clearance Date	Days over 30 Days	Amount
18AP0915	147571	7/20/2017	8/22/2017	33	\$ 2,800.00

### CFDA No. 84.002 Adult Education – Basic Grants to States

Voucher Number	Check Number	Check Date	Check Clearance Date	Days over 30 Days	Amount
18AP1489	147551	7/20/2017	8/25/2017	36	\$ 211.65
860001	197207	6/28/2018	9/4/2018	68	1,690.18
806643	158104	1/8/2018	3/1/2018	52	45,925.56
					\$ 47,827.39

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## Corrective Action Plan Report

### CFDA No. 84.048, Career and Technical Education - Basic Grants to States

Voucher Number	Check Number	Check Date	Check Clearance Date	Days over 30 Days	Amount
18AP3294	148992	8/3/2017	9/5/2017	33	\$ 1,053.24
802263	154470	11/13/2017	12/20/2017	37	1,400.00
799067	153817	11/1/2017	12/5/2017	34	589.97
832896	1845	5/7/2018	12/12/2018	219	1,312.00
817056	482	3/28/2018	12/11/2018	258	213.01
					\$ 4,568.22

### CFDA No. 84.367, Supporting Effective Instruction State Grant

Voucher Number	Check Number	Check Date	Check Clearance Date	Days over 30 Days	Amount
806160	157702	12/26/2017	1/29/2018	34	\$ 50.00
810163	160690	2/1/2018	5/2/2018	90	2,797.53
847762	179433	6/12/2018	8/7/2018	56	18,115.01
					\$ 20,962.54

The above program receives funds under the reimbursement cash management method. During our compliance testing, we identified the following deficiencies:

- In two (2) instances of four hundred and twenty-five (425) disbursements selected for testing, the federal funds were deposited to the Entity's account prior to the date of the reimbursement request.

The exceptions noted under each program during the performance of our tests were as follows:

### CFDA No. 84.027, Special Education - Grants to States

Voucher Number	Check Number	Check Date	Check Clearance Date	Days over 30 Days	Amount
840630	2665	5/25/2018	5/24/2018	1	\$ 2,794.00
806070	157609	12/26/2017	12/22/2017	4	22,957.00
					\$ 25,751.00

#### Management response:

PRDE disagrees with the auditors finding in part. PRDE has worked towards complying with this Federal requirement and has accomplished a lot through the recent years.

For all the instances that auditors identified funds were disbursed after the required time frame of three (3) business days of their availability, PRDE recognizes that even thou on March 2017, PRDE developed a new process in its Accounting System (SIFDE, acronym in Spanish) to mostly automatize the payment process, we were still in the process of full implementation of the corrective action plan to comply with the terms and conditions established in the Cash Management Improvement Act Agreement.

The process consists on that on a periodic basis, the Treasury Department enters in SIFDE the balance available for issuing payments. Authorized PRDE personnel then selects the payment vouchers that are required to be released and proceeds on processing the "unhold" vouchers. The payment cycle is processed and available for the Treasury

## **Puerto Rico Department of Education Corrective Action Plan Report**

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Department approval. Once approved, PRDE proceeds with the check's submission to Hacienda for the corresponding printing. However, PRDE is performing specific testing over transactions not being covered by the abovementioned automated process.

On the other hand, PRDE is in the process of converting all payments to its suppliers, whenever possible, to the ACH method. This method is a safer way to disburse payments directly to the bank accounts of the suppliers and also facilitates the process of maintaining an audit trail of each transaction.

Near the date of these transactions noted by the auditors, the first disbursement tests were being carried out using the ACH method, however the SFA Cluster program had not yet modified its manual of procedures so, these transactions had to be reversed to then re-issue them by check, in compliance with the program's processes. Because PRDE cannot make disbursements on a daily basis, and only on the day the Puerto Rico Treasury Department authorizes it, these transactions ended up in non-compliance with the 3-day term established by the USDE.

For the twelve instances where auditors identified that check clearance date was several days after being issued, PRDE reiterates that once checks are issued by PRDE, the release and final clearance dates for the disbursements are outside of the control of PRDE. However, we have discussed with the PR Treasury Department about the importance of this compliance requirement and we have been able to implement measures to reduce this type of instances. In compliance with federal requirements, for programs on an advance method, PRDE demonstrated it has established procedures to minimize the time elapsed between the drawdown of federal funds, and the disbursement of check payments.

For the instances where auditors identified that check clearance date was several days after being issued, PRDE has demonstrated to track at least 99% of the funds disbursed, from issuance to clearance, for a period of at least three months, as stated by Section 7.4 of the Treasury State Agreement (TSA). Also, through PRDE's actual accounting system (SIFDE), the agency is able to meet with the requirements stated under Section 7.5 of the TSA. SIFDE provides PRDE the date the check was released for payment, date the check was debited from the State's account and the amount of the check. In compliance with federal requirements, for programs on an advance method, PRDE demonstrated it has established procedures to minimize the time elapsed between the draw-down of federal funds, and the disbursement of check payments.

PRDE continues to closely monitor all the payments issued and has constantly minimized the number of instances auditors find during their tests.

Expected completion date: December 30, 2019

Contact person: Evelyn Rodríguez Cardé, Director of Finance

# Puerto Rico Department of Education

## Corrective Action Plan Report

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**Finding Number: 2018-006**

### *Condition:*

During our test of controls and compliance procedures for Eligibility for Area of Service Delivery, we visited five (5) Schoolwide schools to test eligibility of school attendance area. PRDE uses as poverty measure, socioeconomic data which is captured through SIE (Sistema Información Estudiantil) to make eligibility computations.

After examination of the underlying source data during our testing procedures, we noticed many instances, in all five schools visited, where the data entered on SIE did not match the physical forms maintained at the schools' records, which were completed by parents or in-charges. Accordingly, we concluded that the data entered on SIE did not represent accurate and complete student information. Furthermore, this is a repeated finding, therefore, the grandfather rule could be incorrectly considered because of prior year differences on forms entered on SIE.

Specific instances identified during our visits to the schools selected were as follows:

1. In four (4) of the five (5) schools visited, we noticed that total number of forms entered in SIE did not equal the total number of forms (Datos de unidad familiar) physically observed at schools.

#	Socioeconomic physically counted	Socioeconomic study entered on SIE	Difference
01.	314	647	(333)
02.	215	219	(4)
03.	356	371	(15)
04.	490	485	5

Also, from the five (5) schools we visited, we were able to physically examine 1,513 "Datos de unidad familiar" forms and noticed that a total of 205 or 14% were without parent/in charge signature.

2. In each of the five (5) schools visited, we randomly selected ten (10) forms "Datos de unidad familiar: Estudio Socio Económico Año 2016-2017" from each school considered for socioeconomic report to ensure that income on the form equals income entered on SIE. We found that from a total of fifty (50) forms examined and traced to SIE data, on seventeen (17) forms or 34% the income reported does not equal SIE data. Moreover, we found that eight (8) out of the fifty (50) or 16% forms examined, the number of family members included in the form were not equal to family members entered in SIE. Also, we found that in seven (7) forms of a total of 50 examined, we noted that date of birth on student files does not equal SIE data.
3. In one (1) of the five (5) schools visited, we noticed that three (3) of the ten (10) students examined in the school no socioeconomic physical form was available to review.
4. In one (1) of the five schools visited, the forms used for the socioeconomic study were not the one that corresponds to the year 2016 -2017. The version used did not required the school director signature.
5. From 1,513 physical forms "Datos de Unidad Familiar" examined, there 2 forms archived at the student file.

### *Management response:*

During school year 2017-18, PRDE implemented an electronic pre-enrollment process, facilitating the flow of information and assuring a reduction of human error in the student and its family information gathering process. This electronic enrollment process is facilitating various components of the PRDE education system. It gives PRDE visibility to accurate information for real-time decision making, streamlining the internal processes of the Department of Education, among many other. This registration system allows parents to pre-enroll students online and register their child personal information.

## **Puerto Rico Department of Education Corrective Action Plan Report**

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Even though this electronic process was implemented during FY 2017, families experienced that much of the regular paper procedures were transitioning to paperless at a same time. Therefore, PRDE was in the midst of the implementation of the electronic process when families completed the socioeconomic study data for school year 17-18, and they decided to complete this information by paper. PRDE used next school year pre-enrollment process to gather the parent's concerns about the new electronic procedures to enhance the platform. In addition, PRDE will hold an outreach campaign to ensure this process will be comfortable for all our families in the next school year's pre-enrollment process. For this purpose, the Central Level Planning Office, the Federal Affairs Office and the Title I Program Coordinator have begun making the correspondent updates to the system and it's required testing.

PRDE has been encouraging parents to complete the online enrollment process for the new Academic Year 2019-2020. Families will be able to use a computer at the school to begin the pre-enrollment process. However, paper forms will be available only for parents without computer or internet access, and School Directors will be responsible to submit any student information to the system. PRDE expects a reduction in this type of observation during next fiscal year.

Expected completion date: June 30, 2020

Contact persons:           Yanín M. Dieppa Perea, Auxiliary Secretary for Federal Affairs  
                                  Ileana Cortés Burgos, Title I Program Coordinator



# **Puerto Rico Department of Education**

## **Corrective Action Plan Report**

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**Finding Number: 2018-007**

*Condition:*

In testing compliance with the requirements related to earmarking, we recalculated the proportion of compensation of students employed in community service activities to total Federal Work Study (FWS) allocations for the award year 2017-18 and noted that the minimum amount (\$17,500) was not met.

In addition, when testing compliance of the matching requirement, PRDE was not able to provide supporting documentation from the accounting records to substantiate the assigned and disbursed amounts corresponding to each of the Technology Institutes related to the Federal Work Study Program (FWS) and for the Federal Supplemental Educational Opportunity Grants (FSEOG).

*Management response:*

PRDE acknowledge the importance of complying with the earmarking requirement and has historically complied with this requirement. However, since this finding correspond to the time period in which the Island was severely damaged by Hurricanes Irma and Maria on September of 2017, the PRDE could not comply with this requirement. The hurricanes impact caused catastrophic damages leaving the institutions' academic and administrative buildings closed for an extended period of time. The administrative offices were relocated to an alternative site to start with the recovery efforts in order to bring the intuitions to a suitable condition to continue the academic courses. Therefore, PRDE's corrective action plan was significantly delayed.

Since PRDE did not use all of the funds initially allocated due to the situation mentioned above, PRDE performed the calculation using the total amount actually expended in the FWS program. Based on the FISAP report submitted by the PRDE to the USDE the minimum amount for Community Services Activities should be \$12,603 (which is 7% of the amount actually expended in the FWS program reported on the FISAP. The total community service earned compensation in Community Services Activities as stated in Section G of the 2017-18 FISAP was \$14,850. This amount exceeds the minimum amount of \$12,603, resulting in PRDE's compliance with the earmarking requirement.

Additionally, PRDE will continue to schedule trainings for all Financial Aid Personnel regarding FWS regulations and monitoring the Financial Aid Office operations and personnel, who are responsible for the administration of the FWS program. PRDE is committed to completing all corrective actions within a negotiated timeline in order to fully comply with all applicable federal requirements.

Expected completion date: June 30, 2020

Contact persons: Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education  
Kelvin J. Pagán, Technical Education Program Director

# Puerto Rico Department of Education

## Corrective Action Plan Report

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**Finding Number: 2018-008**

*Condition:*

In testing compliance and internal control over Level of Effort – Maintenance of Effort requirement, we were provided with the entity's calculations corresponding to the fiscal year under audit. A State must maintain its level of fiscal effort on either an aggregate or per-student basis for prior year with respect to the second preceding year. We noted that the State did not meet the Level of Effort - Maintenance-of-Effort requirement, under either of the two available computation methods for compliance as required under the Section 311(b)(1)(A) of Perkins IV (20 USC 2391(b)(1)(A)).

For FY 2015-2016, State funds expenditures on PRDE accounting records for Career and Technical Education program amounted to \$74,793,937 and a certified enrollment of 37,180 students. The dollar amount assigned per student was of \$2,011.67.

For FY 2016-2017, State funds expenditures on PRDE accounting records for Career and Technical Education program amounted to \$70,797,819 and a certified enrollment of 37,180 students. The dollar amount assigned per student was of \$1,904.19.

Aggregated efforts decreased from FY2015-16 to FY2016-17 in the amount of \$3,996,118 or -5.34%. The State's per-student effort decreased by \$107.48 or -5.34%. The student enrollment had no change, for a total of 37,180 both fiscal years; while the States aggregate expenditures decreased by \$3,996,118. Therefore, per-student effort was reduced. In order to comply under the per-student basis computation, the States' total aggregate expenditures should have amounted to \$74,793,937, or an additional \$3,996,118, in order to maintain the per-student dollar amount of \$2,012.67.

The State's aggregate expenditures should amount to at least \$74,793,937, matching total States expenditures for the second preceding year (Fiscal Year 2015-16), in order to comply with Level of Effort – Maintenance-of-Effort under the aggregate basis of expenditures computation.

*Management response:*

PRDE closely monitors compliance with the Maintenance of Effort (MOE) requirement. While PRDE has historically complied with this provision, in recent years, PRDE has experienced fluctuation in both federal and state funding for career and technical education. In addition, the Government of the Commonwealth of Puerto Rico has experienced challenging financial circumstances resulting in a decrease in the state budget for education for the past few years. Further, due to the current financial circumstances in Puerto Rico and the Financial Oversight and Management Board's ultimate control over State funding, and most recently the adverse impacts of Hurricanes Irma and Maria, Puerto Rico can no longer rely on the same sources to calculate MOE and needs to revise its methodology.

The U.S. Department of Education (ED or the Department) has been cognizant of PRDE's need to revise its MOE methodology since the 2015 single audit process. Specifically, on November 9, 2016 PRDE received a program determination letter (PDL) for the audit period July 1, 2014, through 2015. Finding 2015-011 noted that PRDE did not meet the MOE requirement under either of the two available computation methods. The Department sustained the auditors finding 2015-011 and requested: (1) revised policies and procedures to calculate MOE, and (2) spreadsheets showing actual expenditures for CTE for the two years in question.

As of this date PRDE has not received any additional communication regarding this matter. However, PRDE received a technical assistance visit from OCTAE during May 15-16, 2019, related to the implementation of the new Perkins V Act.

During this visit, USDE requested additional information regarding the MOE state expenditures for FY's 2016-2017 and 2017-2018. USDE also indicated that he will provide this additional information to the Audit Division to finally conclude the resolution of these findings.

Expected completion date: December 31, 2019

Contact person: Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education

# **Puerto Rico Department of Education**

## **Corrective Action Plan Report**

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**Finding Number: 2018-009**

*Condition:*

While performing our audit procedures over reporting compliance requirement, we noticed that the submission of the second quarter of the Quarterly Grant Accrual Reports and the State Program Report, required by the Institute of Museum and Library Services (IMLS), was submitted late by the State Library Program. The IMLS grant calendar cycle included at the Grant Award Guidance package indicates that the due date for the second quarter of 2018 of the Quarterly Grant Accrual Report was April 5, 2018 and the State Library Program submitted the report on April 6, 2018. For the otherwise, the IMLS grant calendar cycle indicates that the due date for the State Program Report was December 29, 2017, has consequence of a non-cost extension requested and approved, the new due date for the State Program Report was December 29, 2018 and the State Library Program submitted the report on December 30, 2018.

*Management response:*

PRDE disagrees with this finding.

As a precautionary measure given the distressing situation Puerto Rico faced in the aftermath of Hurricanes Irma and Maria, DEPR proactively requested a highly comprehensive waiver for all reports that this program required for FY 17-18. This communication was made available to the auditors at the same time Quarterly Accrual reports and SPR report were shared.

Moreover, at the eventuality of the auditors' findings on the timeliness of our reports, DEPR entered into communication with the federal staff of the IMLS program, requesting clarification on the applicability of the waiver, to which they replied that PRDE has been very communicative in recent years around the quarterly accrual reports, and IMLS has no concerns about the timeliness factors cited during this time period.

PRDE wants to emphasize that the auditor's findings are based on a one-day late submission of each report. For the 2017 SPR Report, which was originally covered by the waiver we mentioned above, the extension granted was December 29, 2018. However, this calendar day is a Saturday. PRDE made an outstanding effort to have personnel available to submit this report on a timely basis.

PRDE understands that based on this information, this finding should not be sustained.

Expected completion date: December 30, 2018

Contact persons:                   Aixamar González Martínez, Auxiliary Secretary for Academic Affairs  
Mary J. Have Bermúdez, State Library Program Interim Coordinator

# Puerto Rico Department of Education

## Corrective Action Plan Report

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**Finding Number: 2018-010**

*Condition:*

In testing compliance and internal controls over Reporting - Special Report - the auditors obtained copy of the Fiscal Operations Report and Application to Participate (hereafter, FISAP) for the Award Year 17-18, and traced material line items to PRDE's disbursement records. The auditors noted the following exceptions:

1. Amounts reported in Part II, Line 22 - Total tuition and fees for the award year July 1, 2017 to June 30, 2018 and Line 23 - Total Federal Pell Grant expenditures for the 2017-2018 award year did not agree with the amounts actually disbursed as evidenced in the accounting records. Also as to Part II, Line 7 - Total number of undergraduate students 2017-18 did not agree with population tested for the year under audit.
2. Amounts reported in Part VI, Section A - Line 24, Column (c) and (e) - Total FSEOG recipients and Total FWS recipients, respectively, did not agree with population tested for the year under audit.

A similar finding was reported last year as item 2017-011.

*Management response:*

PRDE accepts this finding and will continue making efforts to prevent the recurrence of the above condition and as a corrective action plan PRDE will amend the FISAP for the fiscal year 2017-2018.

In addition, PRDE has established the following procedures:

1. Continuous training of all Financial Aid Office personnel regarding FISAP reporting and federal disbursement regulations, and
2. Monitoring the Financial Aid Office personnel, who are responsible for gathering the FISAP report data, to ascertain the appropriate procedures are being followed and that the required data is accurate and consistent with PRDE's disbursement records.

Also, as part of the corrective action plan, PRDE will coordinate a technical assistance visit from the US Department of Education to provide a seminar to all the institutions' personnel involved in the administration of Title IV funds. This seminar will help PRDE to prevent the recurrence of the above condition in the future.

In addition, PRDE is in the process of acquiring a completely new Student Information System with an integrated Financial Aid module. During the Fiscal Year 2016-2017, PRDE implemented a Student Information System (SIS) within the institutes and training was provided to all the personnel including those working with the SFA Program. The SIS implementation was supposed to improve the Title IV funds management and financial procedures. However, the results obtained did not met PRDE's expectations. The new system will be fully implemented during the fiscal year 2019-2020.

USDE recently accepted the PRDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRDE partially disagrees. We expect that this process will allow PRDE to provide additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day-to-day operations to provide the most high-quality service and education to our students.

Expected completion date: June 30, 2020

Contact persons: Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education  
Kelvin J. Pagán, Technical Education Program Director

# **Puerto Rico Department of Education**

## **Corrective Action Plan Report**

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**Finding Number: 2018-011**

*Condition:*

The PRDE did not submit the Enrollment Reporting Roster File updated to the National Student Loan Data System (NSLDS) and other information as required by federal regulations during fiscal year 2017-2018.

A similar finding was reported last year as item 2017-015.

*Management response:*

PRDE was not able to submit the Enrollment Reporting Roster File to the NSLDS during this fiscal year, therefore, concurs with this finding.

Due to the turnover of staff and recognizing the importance of technical knowledge that our personnel must receive, PRDE has requested to the US Department of Education a seminar which has already been coordinated to take place between September and November 2019. This seminar will be provided to all the institutions' personnel involved in the administration of Title IV funds, and the NSLDS Enrollment Reporting will be one of the topics that will be covered.

Also, PRDE is establishing standard monitoring processes to the Financial Aid Office personnel, who are responsible for the Enrollment Reporting, to ascertain the appropriate procedures are being followed and the reports are accurate and consistent with PRDE records reported to the National Student Loan Data System (NSLDS).

In addition, PRDE is in the process of acquiring a completely new Student Information System with an integrated Financial Aid module. During the Fiscal Year 2016-2017, PRDE implemented a Student Information System (SIS) within the institutes and training was provided to all the personnel including those working with the SFA Program. The SIS implementation was supposed to improve the Title IV funds management and financial procedures, however, the results obtained did not met PRDE's expectations. The new system will be fully implemented during the fiscal year 2019-2020.

Expected completion date: June 30, 2020

Contact persons: Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education  
Kelvin J. Pagán, Technical Education Program Director

# Puerto Rico Department of Education

## Corrective Action Plan Report

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Finding Number: 2018-012

*Condition:*

In testing compliance and internal controls over Level of Efforts - Maintenance of Efforts the auditors noted that management was not able to provide supporting documentation as to corresponding calculation for the requirement aforementioned.

*Management response:*

PRDE disagrees with this finding.

During the course of the audit procedures performed by the external auditors, they requested all the necessary documentation to test the compliance of the Level of Effort of the ESEA programs, however, no documentation was requested to show that the agency's internal controls were properly implemented to ensure that every effort was made to meet the calculation requirements of this computation, to which this finding is related.

On August 2010, PRDE received a memo from the USDE with the instructions related on how PRDE should perform the processes of calculation of LOE. Specifically, further communications were established in order to gather more information and by email communications that were also supplied to the auditors, they stated that *"The attached letter from 2010 describes how the U.S. Department of Education (ED) annually determines whether States maintained fiscal effort in the preceding fiscal year under section 1125A(e) of the ESEA. [...] As a unitary system, this also means that Puerto Rico has met the LEA MOE requirement in section 8521 of the ESEA. Therefore, due to Puerto Rico's unitary status, it is not necessary for Puerto Rico independently to determine whether it maintained effort under sections 1125A(e) or 8521 of the ESEA because ED performs this function when it annually checks whether Puerto Rico (and other States) met the State MOE requirement in section 1125A(e)."*

Regarding the PRDE internal controls that are in place and have always been, on an annual basis, the PRDE Budget Office requests each of PRDE's Program/Office/Division its estimated and necessary state budget for the next fiscal year. Each Program/Office/Division realize an analysis of its needs and requests the state budget necessary to ensure its operations, continuity of service and overall compliance with the applicable state and federal requirements. The approval of this budget is subject to the availability of funds allocated to the PRDE by the Central Government. Each program conducts its due diligence to ensure compliance with applicable federal laws and to ensure continuity and implementation of federal programs assigned to DEPR, regardless of the additional compliance that the USDE performs by calculating the LOE by themselves.

Expected completion date: November 30, 2018

Contact person: Yanín M. Dieppa Perea, Auxiliary Secretary for Federal Affairs

# **Puerto Rico Department of Education**

## **Corrective Action Plan Report**

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**Finding Number: 2018-013**

*Condition:*

In one (1) instance of four hundred and twenty-five (425) disbursements examined, no evidence was available to support that the payment was properly documented.

*Criteria:*

2 CFR section 200.333 establishes that financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. Federal awarding agencies and pass-through entities must not impose any other record retention requirements upon non-Federal entities.

*Management response:*

PRDE acknowledge the importance of keeping the necessary evidence of payments in compliance with the federal regulations. Although PRDE's management makes every effort to safeguard the information of the participants of each program, the onslaught of Hurricanes Irma and Maria severely impacted the agency's recordkeeping processes.

The file related to this finding was in the agency's inactive files archive. When requested by the auditors for purposes of the test, the program identified that it corresponded to be among the files that were severely damaged by the impact of Hurricanes Irma and Maria.

Despite not being able to provide the particular year evidence that was requested by the auditors, this supplier remains active and in compliance with our program and subsequent years files were available for the auditors.

PRDE is evaluating how records could be protected in order to avoid this kind of instances in the future.

Expected completion date: June 30, 2019

Contact person: Lourdes N. García Santiago, Interim Director School Lunch Program

# **Puerto Rico Department of Education**

## **Corrective Action Plan Report**

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**Finding Number: 2018-014**

*Condition:*

During our audit procedures, we noted that PRDE does not have an adequate recordkeeping system that allows an easy audit trail of all transactions involving the processing of financial aid. In testing compliance and internal control over the cash management requirement for SFA cluster, the auditors selected a sample of eight (8) draw-downs out of 34 draw requests during FY 2017-18 in the G5 system and noted that on 19 payments out of 2,952 payments within our sample, that payment information (check number and check date) were not present in the records provided.

A similar finding was reported last year as finding 2017-013.

*Management response:*

The PRDE recognizes the importance of taking steps to improve procedures. As part of the ongoing monitoring processes that have been developed to assess the performance of the Student Information System (SIS), SFA program staff identified that the system was duplicating a series of payments to students. Immediately after this situation was identified, all the duplicated payments were cancelled to ensure the proper use of the funds and prevent the payment process from being done incorrectly.

This situation is one of the examples by which, after thoroughly evaluating the performance of the SIS system, PRDE in accordance with USDE advice, decided to start the process of substituting the current system for a completely new system that will addresses this and other situations found during implementation phase of the SIS. The new system is expected to be fully implemented during the fiscal year 2019-2020.

USDE recently accepted the PRDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRDE partially disagrees. We expect that this process will allow PRDE to provide additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day-to-day operations to provide the most high-quality service and education to our students.

Expected completion date: June 30, 2020

Contact persons:                Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education  
   Kelvin J. Pagán, Technical Education Program Director



# Puerto Rico Department of Education

## Corrective Action Plan Report

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**Finding Number: 2018-015**

*Condition:*

During our understanding of procurement processes and the performance of our audit procedures, we noted the following exceptions:

- In three (3) of four hundred twenty-five (425) disbursements examined, purchases performed by the noncompetitive procurement method did not maintain records in sufficient detail to properly substantiate the rationale for not carrying out a free and open competition.
- In thirteen (13) of four hundred twenty-five (425) disbursements examined, we noted that the non-federal entity was not able to provide records sufficient to detail the history of procurement.

After inquiries and evaluation of written policies and procedures related to the procurement process, we noted that PRDE's documented procurement policies, "Guía para la selección de servicios profesionales que son sufragados con fondos federales" effective January 26, 2007, establish that some services can be acquired under the noncompetitive procurement methods (e.g. accounting services, legal services). These services are not contemplated in the exceptions permitted by the federal regulation to apply the noncompetitive procurement method; not permitting a full and open competition practice and providing incentive to engage in unfair competitive advantage.

We also noted that procurement procedures followed by the PRDE Legal Division are different from those established and implemented by the Purchasing Department, which is the department responsible for executing the vast majority of purchases; including those paid with non-federal funds. Additionally, auditors noted that the Legal Division fails to maintain in enough detail documentation related to the procurement processes.

*Management response:*

PRDE partially disagrees with the auditors finding.

PRDE has in place a procurement process that contemplates exceptions to the regular competitive process. According to our "Guía para la selección de servicios profesionales que son sufragados con fondos federales", PRDE may initiate a noncompetitive procurement process when acquiring legal or accounting services, due to the nature of such services. As for legal services, these are required to comply with ethical canons by establishing a client-lawyer relationship that grants particular privileges to the lawyers, based on the reliability of its client that his lawyer will seek the best well-being of its client under most kind of circumstances. This type of relationship can't be identified during a regular competitive process, therefore, PRDE considers it as one of the acceptable exceptions under its policies and procedures.

PRDE understand that this finding should not be considered an exception, for the procurement process was performed in compliance with PRDE's noncompetitive procurement procedures. However, PRDE understands the importance to review and improve its procurement procedures. For this reason, PRDE's Procurement Office is conducting a comprehensive assessment to make a new purchasing regulation. This assessment will allow PRDE to address any kind of breaches that may arise from the purchasing processes of goods and services.

Besides the assessment to develop new procurement policies and procedures, PRDE is carrying out additional measures by evaluating the consolidation of all procurement processes that are performed by other offices. This will allow PRDE's Procurement Office to perform all procurement processes regardless of whether the source of funding is local/state or federal. In addition, PRDE is implementing the integration of its current purchasing system, known as

## **Puerto Rico Department of Education Corrective Action Plan Report**

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Strategic Sourcing. This system will allow PRDE to perform additional processes to acquire other elements other than goods and services by using the same software system.

Due to the economic situation of the island, the local government has imposed measures to ensure the stability and functioning of government agencies, by requiring to purchase those services that are offered by other government agency or division. This measure will generate economies by decreasing the costs many of these services result when acquiring them to an external or private company. In the event where an agency is unable to provide the goods or services according to the established specifications, the use of non-governmental suppliers may proceed. This situation explains one of the instances related to the use of non-competitive measures to purchase goods or services mentioned by the auditors.

However, for the other two instances related to the use of non-competitive methods, even though both transactions are listed as exceptions under PRDE's current procurement procedures manual, we understand that not all documentation was available during auditor's review. PRDE will continue to work towards maintaining all documentation of its procurement processes.

In relation to the instances where the program did not provide sufficient documentation of the procurement history from a specific non-federal entity, PRDE states that due to the onslaught of Hurricane Maria, countless documents archived in PRDE's premises were severely damaged. PRDE recognizes the importance of maintaining its procurement records and is evaluating methods to prevent such situations from happening in the future.

Expected completion date: June 30, 2020

Contact person: Norma J. Rolón Barada, Director of Procurement

# **Puerto Rico Department of Education**

## **Corrective Action Plan Report**

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**Finding Number: 2018-016**

*Condition:*

In our internal controls and compliance testing as to the Common Origination and Disbursement (COD) reporting, we selected a sample of sixty (60) participants and noted that in seven (7) instances the PRDE did not provide evidence of reporting the adjustments that should have been made through the student payment data in the COD System.

A similar finding was reported last year as finding 2017-021.

*Management response:*

The PRDE understands the condition of this finding, however it does not fully agree with it.

During the process of reviewing the information of this finding, the program staff reviewed and compared the data contained in the COD report against the data used to make disbursements to students who participate in the supplementary grants. During this process, the PRDE noticed a discrepancy between these reports.

The disbursements made by the PRDE are aligned to the authorizations received from the USDE through the ED Express platform, so we are confident that all disbursements were made according to the parameters established by the government to provide assistance to students through this program.

Since we are acquiring a new information system that serves this and the other findings, we understand that future instances will be considerably reduced. Also, we emphasize that this topic among many other will be covered in the technical assistance session to be held between September and November 2019 that PRDE is coordinating with USDE as a result of a recent Program Review.

USDE recently accepted the PRDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRDE partially disagrees. We expect that this process will allow PRDE to provide additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day-to-day operations to provide the most high-quality service and education to our students.

Expected completion date: June 30, 2020

Contact persons: Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education  
Kelvin J. Pagán, Technical Education Program Director

# Puerto Rico Department of Education

## Corrective Action Plan Report

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**Finding Number: 2018-017**

*Condition:*

In testing compliance with the return of Title IV funds requirement, we selected sixty (60) participants of the Title IV Federal Financial Assistance programs and identified those students who withdrew, dropped-out, or failed to attend to the institution. During our evaluation of compliance with these requirements, we noted the following exceptions:

While reviewing and recalculating the return of Title IV funds determinations/calculations for conformity with Title IV requirements, we noted the following deficiencies:

- In one (1) case the institution computed the return of Title IV funds incorrectly.
- For four (4) students, PRDE did not provide evidence as to the return of Title IV funds calculation.

*Management response:*

Although these cases pointed out by the auditors are isolated cases, PRDE recognizes the importance of maintaining an accurate record of the funds that are disbursed to students and the responsibility for the return of Funds.

Regarding the instance of the incorrectly computed return of funds, PRDE will review and correct this case accordingly. Regarding the 4 other instances where no evidence of the return of funds was provided, it was explained to the auditor that this evidence was not available, since the PRDE usually drawdowns Title IV funds at the end of each semester, contemplating all necessary adjustments per student that must reduce the amount of PRDE's revenue.

PRDE has established the following procedures; continuous training of all Financial Aid Personnel regarding Return of Title IV Funds (R2T4) reporting regulations. Monitoring of the Financial Aid Personnel, who are responsible for R2T4 calculations, to ascertain appropriate procedures and regulations are being followed and the reports are accurate and consistent with the PRDE records.

The US Department of Education will provide a seminar on September 2019 to all the institution's personnel involved in managing Title IV funds. The Return to Title IV funds will be one of the topics to discuss.

We expect that the seminar will help us to prevent the recurrence of the above conditions in the future.

USDE recently accepted the PRDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRDE partially disagrees. We expect that this process will allow PRDE to provide additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day-to-day operations to provide the most high-quality service and education to our students.

Expected completion date: June 30, 2020

Contact persons: Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education  
Kelvin J. Pagán, Technical Education Program Director

# Puerto Rico Department of Education

## Corrective Action Plan Report

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**Finding Number: 2018-018**

*Condition:*

During our compliance testing with this requirement, we selected a sample of sixty (60) participants and examined evidence of payments disbursed to students. While reviewing the disbursements evidence we noted the following:

- For four (4) students, auditors noted that six (6) Pell payments were paid after 14 days of the occurrence of the credit balance on the student account.
- For eight (8) students, auditors noted that eleven (11) FWS payments were compensated in a period that exceeded one month.
- For two (2) students, PRDE did not provide evidence (Payroll) as to student work performed on the FWS program.
- For one (1) student, PRDE did not provide evidence that student (or parent) received the corresponding payment.

*Management response:*

PRDE acknowledge the importance of maintaining appropriate records to comply with all federal requirements regarding the use of Title IV funds.

Regarding the instances where payments were made outside of the appropriate timing, PRDE is in the process of acquiring a completely new Student Information System with an integrated Financial Aid module. This system will provide with automatize attributes to monitor the process of payments. This will allow PRDE staff to comply with the specific requirements related to disbursement of payments to or on behalf of students. Additionally, PRDE is working with the local Central Government to implement the corrective actions in order to prevent the recurrence of this finding.

Regarding the lack of evidence provided to the auditors on the payroll and receipt of payments, our institutions were strongly devastated by the aftermath of hurricanes Irma and María and a lot of student records were destroyed by floods. The new information system that PRDE expects to have fully implemented by FY 19-20, will allow PRDE to transition student files from paper to electronic format.

PRDE expects these measures will prevent the future recurrence of this finding.

USDE recently accepted the PRDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRDE partially disagrees. We expect that this process will allow PRDE to provide additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day-to-day operations to provide the most high-quality service and education to our students.

Expected completion date: June 30, 2020

Contact persons: Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education  
Kelvin J. Pagán, Technical Education Program Director

# Puerto Rico Department of Education

## Corrective Action Plan Report

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**Finding Number: 2018-019**

***Condition:***

From a sample of sixty (60) students who received Title IV funds during the period under audit, auditors noted the following exceptions:

- In eighteen (18) instances, the need analysis worksheet ("Hoja de Trabajo para la determinación de necesidad") did not account all the financial assistance awarded during the period under audit in order to determine that the financial assistance do not exceeds the student's financial need.
- In one (1) instance, the student did not maintain satisfactory academic progress, as stated in PRDE Policy; however, a Pell disbursement occurred.
- For one (1) student of which Title IV Funds were disbursed during the year, the student's file was not available for the auditor's review.

***Management response:***

PRDE understands this finding.

Regarding the instance in which the student doesn't show satisfactory academic progress and however a disbursement occurs, we categorize this instance as an isolated case. The Institute's staff perform a case-by-case check on each student's academic performance at the end of the semester. This information is shared with the financial assistance staff to ensure student eligibility is correct. Although this internal controls are implemented and have always been a very valuable tool to limit the recurrence of this type of situations, PRDE will revise the controls in place and perform any update needed to strengthen the process.

With regards to the academic's files not available for auditor's examination, our institutions were strongly devastated by the aftermath of hurricanes Irma and María and a lot of student records were destroyed by floods. The new information system that PRDE expects to have fully implemented by FY 19-20, will allow PRDE to evaluate the transition of student files from paper to electronic format. PRDE expects the new system will be fully implemented during the fiscal year 2019-2020.

USDE recently accepted the PRDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRDE partially disagrees. We expect that this process will allow PRDE to provide additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day-to-day operations to provide the most high-quality service and education to our students.

Expected completion date: June 30, 2020

Contact persons: Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education  
Kelvin J. Pagán, Technical Education Program Director

# **Puerto Rico Department of Education**

## **Corrective Action Plan Report**

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**Finding Number: 2018-020**

***Condition:***

During our test for compliance procedures with Annual Report Cards and High School Graduation Rate, we selected 40 students that were excluded from the adjusted cohort rate. For these students, we examined the written documentation that the student has a valid reason to be excluded of the calculation.

During our examination, the written documentation of exclusion was not available of four (4) of the forty (40) students selected.

***Management response:***

DEPR recognizes the importance of maintaining and securing the information of all our students. Unfortunately, during the 2017-18 school year, Puerto Rico was shot down by one of the most fateful natural phenomena in modern history.

Hurricanes Irma and Maria brought in their wake countless problems which was the loss of information that was stored in many of our school campuses, regional and central offices. After a couple of days of hurricane Irma, when Puerto Rico was not ready to face a new challenge, a new tempest was coming. On September 18, 2017, the Puerto Rico Government started announcing the proximity of hurricane María. The projections showed that the hurricane was going to hit Puerto Rico directly on the morning of September 20, 2017. On September 18, 2017 the Government could only provide a very limited time for public employees to secure documentation and equipment at schools, districts, educational regions and central offices. PRDE staff did everything they could to keep all possible documents safe, however it was a great challenge to recover all of these.

Prospectively, the DEPR is evaluating the possibility of convert some additional paper form processes into electronic. In this way we can safeguard the information in case we are dejected again by a similar phenomenon. We hope that these initiatives will direct us to minimize instances like these in the near future.

Expected completion date: June 30, 2020

Contact persons:           Yanín M. Dieppa Perea, Auxiliary Secretary of Federal Affairs  
                                  Ileana Cortés Burgos, Title I Program Coordinator  
                                  Lydiana I. López Vega, Central Level Planning Office Director

# Puerto Rico Department of Education

## Corrective Action Plan Report

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### Finding Number: 2018-021

#### Condition:

During our test for compliance procedures with Assessment System Security, we selected 40 schools to review the policies and procedures regarding the test security for the assessments and review documentation of the implementation of those security measures. The implementation of those measures is examined with a security agreement signed by the school director and before and during assessments monitories realized to ensure the security and confidentiality of its administration.

Specific instances identified during our review of security implementation were as follows:

For sixteen (16) of forty (40) schools examined, no security agreements ("Certificación de Medidas de Seguridad") were available for our review.

For six (6) of forty (40) schools examined, no documentation of monitories realized before assessment tests were available for our review.

For seven (7) of forty (40) schools examined, no documentation of monitories realized during assessment tests were available for our review.

#### Management response:

PRDE recognize how data maintenance ensures the important work that the system does in educating children. Especially, when it comes to measuring the efficiency of the teaching provided to them through our system.

Unfortunately, during the 2017-18 school year, Puerto Rico was shot down by one of the most fateful natural phenomena in modern history.

Hurricanes Irma and Maria brought in their wake countless problems which was the loss of information that was stored in many of our school campuses, regional and central offices. After a couple of days of hurricane Irma, when Puerto Rico was not ready to face a new challenge, a new tempest was coming. On September 18, 2017, the Puerto Rico Government started announcing the proximity of hurricane María. The projections showed that the hurricane was going to hit Puerto Rico directly on the morning of September 20, 2017. On September 18, 2017 the Government could only provide a very limited time for public employees to secure documentation and equipment at schools, districts, educational regions and central offices. PRDE staff did everything they could to keep all possible documents safe, however it was a great challenge to recover all of these.

For this reason, we understand that the observations made by the auditors are an isolated, non-recurring case. Moreover, PRDE hasn't faced this type of finding in the recent years. PRDE is committed to comply with all federal regulations.

Expected completion date: June 30, 2020

Contact persons: Yanín M. Dieppa Perea, Auxiliary Secretary of Federal Affairs  
Daisy Hernández, Assessment Unit