

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION**
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

FINANCIAL STATEMENT AUDIT AND SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**(WITH THE ADDITIONAL REPORTS REQUIRED BY
THE GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE)**

CONTACT PERSON:

JOSE E. DIAZ MARTINEZ, CPA, CGMA, MBA
PRESIDENT
CPA DIAZ-MARTINEZ, CSP
LICENSE No. PSC-12
E-MAIL: www.jose.diaz@cpadiazmartinez.com
Phones: (787) 746-0510 / -1185 / -1370
Fax: (787) 746-0525
Cel: (787) 487-7722



CPA DIAZ-MARTINEZ, CSP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS



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PART I
FINANCIAL

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CPA DIAZ-MARTINEZ, CSP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

202 Gautier Benítez Ave.
Consolidated Mall Condominium, Suite C-31
Caguas Puerto Rico
PO Box 8369
Caguas, PR 00726-836
Phones: (787) 746-0510 / 1185 / 1370
Fax: (787) 746-0525
Email: cpadiazmartinez.com

“ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES”

INDEPENDENT AUDITOR'S REPORT

Honorable Yanira Raíces Vega
Secretary
Department of Education
of the Commonwealth of Puerto Rico
San Juan, Puerto Rico

Report on the Audit of the Financial Statement

Opinions

We have audited the accompanying cash-basis financial statement of the **Department of Education of the Commonwealth of Puerto Rico (PRDE)** (an executive agency), which comprise Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds for the fiscal year ended June 30, 2022, and the related notes to the financial statement, which collectively comprise the **PRDE's** basic financial statement as listed in the Table of Contents.

In our opinion, the financial statement referred to above present fairly, in all material respects, the cash receipts and disbursements of the **PRDE** governmental funds, and the respective cash-basis net changes thereof for the fiscal year ended June 30, 2022, in conformity with the basis of accounting described in Note 2.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement Section of our report. We are required to be independent of the **PRDE**, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matters

Basis of Accounting

We draw attention to Note 2 of the financial statement that describes the basis of accounting. The 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 opinions are not modified with respect to this matter.

The Department of Education – Only Basic Financial Statement

As discussed in Note 1, the financial statement of the **PRDE** is intended to present the cash receipts, disbursements, and net changes of the governmental funds of only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the **PRDE**. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2022, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statement

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

In preparing the financial statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the **PRDE's** ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether do to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit 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 **PRDE's** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.

INDEPENDENT AUDITOR'S REPORT
Honorable Yanira Raíces Vega, Secretary
Department of Education
of the Commonwealth of Puerto Rico
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- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the **PRDE's** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statement 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, Costs Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, on pages 37-39, is presented for purposes of additional analysis and is not a required part of the financial statement. The Schedule of Expenditures of Federal Awards 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 or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects, in relation to the financial statement as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2024, on our consideration of the **PRDE'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 this 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 the 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 **PRDE's** internal control over financial reporting and compliance.



CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2025

Caguas, Puerto Rico
June 11, 2024

Stamp No. E569565 of the Puerto Rico Society of Certified
Public Accountants were affixed to the original report.



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COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND NET CHANGES – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

	<u>General Fund</u>	<u>Title I Federal Fund</u>	<u>Restart Fund</u>	<u>Other Federal Governmental Funds</u>	<u>Total Governmental Funds</u>
CASH RECEIPTS:					
Appropriations from the Commonwealth of Puerto Rico	\$ 1,416,734,063	\$ -	\$ -	\$ -	\$ 1,416,734,063
Intergovernmental and Federal Grants	-	320,379,057	73,172,995	895,641,868	1,289,193,920
Total Cash Receipts	<u>1,416,734,063</u>	<u>320,379,057</u>	<u>73,172,995</u>	<u>895,641,868</u>	<u>2,705,927,983</u>
CASH DISBURSEMENTS:					
Current:					
General Government	43,418,280	-	-	-	43,418,280
Vocational and Technical Education	42,560,647	-	-	22,597,458	65,158,105
Community Schools	649,325,463	353,368,701	66,290,152	724,126,084	1,793,110,400
Integrated Educative Services for the Disabled	280,899,246	-	-	137,997,480	418,896,726
Food Services for Students	59,271,125	-	-	161,588,085	220,859,210
Complaints and Provisional Solutions	24,539,983	-	-	-	24,539,983
Schools' Quality of Life and Drug Free	18,867,955	-	-	23,855	18,891,810
Adult Education	3,261,246	-	-	19,397,230	22,658,476
Technological Institutes	5,863,258	-	-	9,527,551	15,390,809
Auxiliary Services and Technical Assistance	36,176,063	-	-	-	36,176,063
Public Schools' Maintenance	21,582,598	-	-	15,973,136	37,555,734
Printing Services	468,863	-	-	-	468,863
Indirect Costs	13,608,560	-	-	-	13,608,560
Joint Resolutions	33,140,957	-	-	-	33,140,957
Special Accounts	100,751,844	-	-	-	100,751,844
Total Cash Disbursements	<u>1,333,736,088</u>	<u>353,368,701</u>	<u>66,290,152</u>	<u>1,091,230,879</u>	<u>2,844,625,820</u>
NET CHANGES	<u>\$ 82,997,975</u>	<u>\$ (32,989,644)</u>	<u>\$ 6,882,843</u>	<u>\$ (195,589,011)</u>	<u>\$ (138,697,837)</u>

The accompanying *Notes to the Financial Statement* are an integral part of this Statement.

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1. REPORTING ENTITY

A. Organization

The Department of Education of the Commonwealth of Puerto Rico (“PRDE”) was organized under Article V, Section 6 of the Constitution of the Commonwealth of Puerto Rico (the “Commonwealth”). The PRDE is presented as part of 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 Act Number 149, “*Organic Law of the Puerto Rico Department of Public Education*”, as amended by Act Number 85-2018, “*Puerto Rico Education Reform Law*” of March 29, 2018 (Act No. 85-2018). This Act establishes Puerto Rico’s public policy in the educational area and creates a public education system focused mainly on 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.

B. Financial Reporting Entity

The PRDE is considered both a State Educational Agency (“SEA”) and a Local Educational Agency (“LEA”) for purposes of administering Federal Financial Assistance programs. The PRDE is for financial reporting purposes, part of the Commonwealth of Puerto Rico (Primary Government). Because The PRDE is for financial reporting purposes, part of the Commonwealth, its financial data is included as part of the Commonwealth of Puerto Rico financial statements. The PRDE accompanying financial statement is issued solely to comply with the Single Audit Act Amendments of 1996 (P.L. 104-156) and for the information and used of the PRDE’s management, and Federal awarding agencies and pass-through entities.

C. Going Concern Evaluation

On an annual basis, as required by Governmental Accounting Standards Board (“GASB”) No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, the PRDE performs an evaluation to determine whether there are conditions or events (known and reasonably knowable), considered in the aggregate, that raise substantial doubt about the PRDE’s ability to continue as a going concern within one year for the twelve (12) months beyond the financial statement date, including any currently known information that raise substantial doubt shortly thereafter. Management has concluded that there is no material uncertainty related to the PRDE’s ability to continue as a going concern through the date the financial statement was available to be issued.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Statement – Measurement Focus and Basis of Accounting

The PRDE’s accompanying Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds is prepared using the cash-basis of accounting, which is a special purpose framework other than generally accepted accounting principles in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. 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 (cash disbursement) are recognized when paid rather than when incurred or subject to accrual. The amounts reported as cash receipts are those received during the fiscal year 2021-2022. No accrual is recognized.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Because the PRDE participates in a pooled cash arrangement as further discussed below, cash receipts from Commonwealth appropriations are 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 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. The 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 result in an excess of cash receipts over (under) disbursements at year-end.

Capital assets resulting from cash transactions are reported as cash disbursements in the acquiring governmental fund upon cash acquisition. No capital assets are recorded in the PRDE's financial statement. No long-term debt is reported in the PRDE's financial statement. No accrued compensated absences are reported in PRDE's financial statement. Compensated absences resulting from cash transactions are reported as cash disbursements in the governmental funds column upon cash payment.

The accounts of the PRDE are organized on the basis of fund types, which are responsible for the coordination, receipt, and management of funds. These are composed of two major funds which are described below. The accounts of the PRDE are accounted for with a set of accounts which only include cash receipts and cash disbursements. No balance sheet accounts are maintained or reported.

The PRDE reports the following major governmental funds:

- **General Fund** – This is the main operating fund of the PRDE and is used to account for all financial resources except those required to be accounted for separately.
- **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.
- **Restart Fund** – This fund is used to account for resources and expenditures related to the restart of elementary schools and secondary schools in areas impacted by the hurricanes, for which a major disaster or emergency is declared under section 401 or 501 of the Robert T. Stafford Disaster Relief and Emergency Act (42 U.S.C. 5170 and 5190). Funds may be used to assist school administrators and personnel in restarting school operations, re-opening schools, and reenrolling students.

The nonmajor funds are presented as Other Federal Governmental Funds column which is used to account for transactions related to other Federal programs.

The cash disbursements are presented in the following individual programs/functions to account for the governmental resources allocated to them for the purpose of carrying on specified activities in accordance with laws, regulations, and other restrictions:

- **General Government** – This function is used to account for resources and expenditures related to the educational and administrative management of the System, through rules, regulations, public policy guidelines and evaluation of academic and administrative processes at all levels. All the educational and administrative procedures that are carried out are framed in the mission of the educational system, which is to guarantee a free and non-sectarian education, which develops the capacities and talents of all students so that they are productive, independent citizens, lifelong learners, respectful of the law, the environment and capable of contributing to the common welfare.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The primary objective of this function is to achieve the effective and agile articulation of the administrative and fiscal systems in relation to the academic goals through systemic processes of institutional strengthening.

- *Vocational and Technical Education* – This function is used to account for resources and expenditures associated with the preparation of human resources to strengthen the economic development of Puerto Rico. Its philosophy focuses on the preparation of individuals, who possess the occupational, technical, basic academic, ethical, civic and employability skills that allow them to acquire a job, keep it and progress in it so that they can contribute effectively to society. The function has over 90 occupational and technical courses in seven study programs that impact 137 occupational schools, both at the secondary and post-secondary levels.
- *Community Schools* – This function is used to account for resources and expenditures associated with all educational and academic services offered in public schools from "kindergarten" to twelfth grade, except the services of the Special Education Program and the Vocational and Technical Education Program. The services are aimed at achieving the optimal integral development of each student in all phases of their training and at all levels of the educational system.

Its main function is to design, produce, implement and evaluate the curriculum of all academic programs to meet the needs of all students in the educational system, promote continuous training of teachers and implement and develop innovative, special and particular projects of each subject academic. Spanish, English, math, science, and social studies curricula will be impacted by consistent integration with fine arts, physical education, and school health; as well as technology, at all levels of the educational system.

- *Integrated Educative Services for the Disabled* – This function is used to account for resources and expenditures related to Special Education which primary purpose of providing educational opportunities adapted to children and youth with disabilities. Act No. 51-1996, as amended, known as the "Comprehensive Educational Services for Persons with Disabilities Act", as well as Federal law, Public Law 105-17 "Individuals with Disabilities Education Act" (IDEA) require that efforts be made to locate children and youth with special education service needs. Likewise, it establishes the right of every child or young person with a disability between the ages of 3 to 21 years of age, inclusive, to receive a free and appropriate public education.

The PRDE of Education, as well as other leading agencies under Act No. 51-1996, supra, have the responsibility of establishing location and registration strategies to meet the needs of these children and youth. Likewise, they establish mechanisms and procedures to disclose the eligibility criteria, availability of services, and ways of accessing them.

Act No. 51-1996 gives the Associated Secretary for Special Education the necessary autonomy to establish administrative structures and processes that allow it to expedite the provision of the services required for people with disabilities up to 21 years of age, inclusive. In order to comply with this responsibility, the strategies are updated and outlined annually to fully comply with the duties and responsibilities granted, through state and federal legislation.

- *Food Services for Students* – This function is used to account for resources and expenditures to provides food services to students to promote the development of all participants in nutrition programs. It is also account for managing the following seven services: school breakfast, school lunch, summer food, food for child and adult care, distribution of donated federal food, special milk for children, and nutrition education and training.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- *Complaints and Provisional Solutions* – This function is used to account for resources and expenditures to attend and implement the Administrative Procedure for Special Education Complaints and the Provisional Remedy, in accordance with what is established by law, jurisprudence and applicable regulations. This program will ensure parents or guardians are provided with the alternative of contracting a related service that the PRDE has not been able to provide the student, due to lack of availability, coordination or provision of the service.
- *Schools' Quality of Life and Drug Free* – This function is used to account for resources and expenditures to provides activities aimed at promoting the reduction in incidences of violence and the use of drugs, alcohol, tobacco and weapons in our schools.
- *Adult Education* – This function is used to account for resources and expenditures related to provide all 16-year-olds or adults, who have not started or completed their studies, educational services to respond to their needs and interests, diversifying the offerings with flexible hours and alternatives that allow them to develop their academic training. This function is made up of: Basic and Secondary Education, Conversational English, Exams, Diplomas and Certifications Unit, Literacy Project, Youth Institutions and Integrated Services Program for Communities. It is also account, through competitive proposals, qualified as eligible providers offer services in day, evening, and Saturday adult education schools.

These can be located in community schools of the PRDE of Education, Public and Private Institutions of proven educational efficiency. In addition, in community-based organizations of proven educational efficiency, correctional and rehabilitation institutions and duly accredited institutions of higher education. Also, they can be located in the facilities of public and municipal agencies, consortia of organizations of proven efficiency with experience in andragogy and in any other accredited entity that provides educational services for literacy up to the fourth year of high school.

- *Technological Institutes* – This function is used to post resources and expenditures related to the operation as higher-level university institutions as approved by the Puerto Rico Board of Education. The purpose of this function is to account for the Technological Institutes, that originally, was to offer post-secondary level courses in technical fields. Later, courses in the areas of business education and health-related occupations were added. Its purpose is to prepare individuals at the postsecondary level who possess the occupational, technical, basic academic, ethical, citizenship and employability skills that allow them to acquire a job, keep it and develop in it. The function has four Technological Institutes and a Specialized School of Stamping and Tooling. These programs offer their students the opportunity to participate in internships in the industry, in such a way that they integrate theoretical and practical knowledge to achieve optimal development in their graduates.
- *Auxiliary Services and Technical Assistance* – This function is used to account for resources and expenditures related to fiscal, organizational, planning and educational and administrative evaluation matters. It also offers advice to all programs on the use of their financial and human resources.
- *Public Schools' Maintenance* – This function is used to account for resources and expenditures related to the Office for the Improvement of Public Schools of Puerto Rico (OMEPE). Through Joint Resolution No. 3 of August 28, 1990, as amended, the OMEPE was created, attached to the Department of Education, to develop an accelerated program of repair and beautification of school facilities and the purchase of books, desks, materials and teaching equipment for the teaching-learning process.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

OMEP has a total of seven (7) regional offices throughout the island. Said offices represent the operational arms of the Central Office and work in coordination with it to guarantee the appropriate channeling and coordination of the improvements assigned to the schools of the municipalities they serve. The regional offices serve as liaison with the municipal governments, the state government, public and private entities in the implementation of the public policy of the Department of Education. They also provide monitoring of construction and maintenance activities and guarantee a rapid and local response in emergency situations.

- *Printing Services* – This function is used to account for resources and expenditures related to the production and dissemination of educational material, integrated and coordinated the operation of the existing facilities at that time for the production of material didactic, informative and cultural of the Department of Education, empowering them, in turn, to offer services to other agencies and the general public. The Program has income from the sale of printed material.
- *Indirect Costs* – This function is used to account for resources and expenditure related to indirect costs proposals.
- *Joint Resolutions* – This function is used to account for resources and expenditures related to special joint resolutions assigned to the PRDE that are not specifically identified with one of the above functions.
- *Special Accounts* – This function is used to account for resources and expenditures related to special assignments other than the Commonwealth general budget.

Notes to the Financial Statement

The notes to the financial statement provide information that is essential to a user's full understanding of the data provided in the financial statement.

B. Stewardship, Compliance, and Accountability

Budgetary Information

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. The PRDE is granted the right to draw against available funds of the Secretary of the Treasury as its means to incur expenditures under the General Fund. Therefore, the budget approved by the Commonwealth represents the spending limit allowed to the PRDE as it relates to funds appropriated by the Commonwealth.

Cash disbursements for 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

On April 29, 2017, Act No.26 established 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 Puerto Rico Treasury Department'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.

Under the statutory basis of accounting, the 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 and those expressly required by the Governor, are ordered 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 appropriate budget level.

C. Cash

The 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.

D. Compensated Absences

The 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 the 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

During fiscal year 1997-1998, 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.

Later, Act No. 167 of the year 2019, was created to amend subsection (c) of Article 3 of Act No. 44-1996, as amended, known as the "Ley de Cesión de Licencias por Vacaciones y Enfermedad", and Article 2.04 of Act No. 26-2017, as amended, known as "Ley de Cumplimiento con el Plan Fiscal"; for the purpose to limit teaching personnel's sick leave to its exhaustion, and become creditor of the days that were transferred by other public employees.

E. Operating Leases

The PRDE 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 PRDE of the Treasury of Puerto Rico are responsible of making these payments to the Authority on behalf of the PRDE, therefore excluded from the accompanying Statement of Cash Receipts and Cash Disbursements. During the fiscal year ended June 30, 2022, these payments for lease agreements amounted to approximately \$73.5 million. Additional rent paid by the PRDE for the leasing of its central offices, other warehouses and parking lots was approximately \$13.6 million. Information of the future minimum rental payments required under operating leases was not available.

F. Risk Financing

The Commonwealth's Secretary of the Treasury is responsible of assuring that the PRDE's property is properly insured. Annually, the 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 the management's opinion, settled claims have not exceeded commercial coverage in any of the past three fiscal years.

The PRDE carries insurance coverage for death and bodily injuries caused by the motor vehicles accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACA), a component unit of the Commonwealth of Puerto Rico. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to AACA.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The PRDE obtains workers compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. The cost of insurance allocated to the PRDE and deducted from the state appropriation for the year ended June 30, 2022 amounted to \$20.3 million.

The PRDE obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the PRDE of Labor and Human Resources of the Commonwealth of Puerto Rico (DOLHR). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because work or employment-related accidents or non-occupational disability and drivers' insurance premiums are paid to DOLHR on a cost reimbursement basis. Total paid during fiscal year ended June 30, 2022 amounted to \$6.5 million.

G. Accounting for Retirement Plans Costs

In June 2012, the Governmental Accounting Standards Board (GASB) issued two new pronouncements related to the accounting and financial reporting requirements for pension related expenses and liabilities. GASB Statement No. 67, *Financial Reporting for Pension Plans an amendment of GASB Statement No. 25*, replaces the requirements of GASB Statement Nos. 25 and 50 for plans administered by pension systems through trusts or equivalent arrangements, and was implemented by the Commonwealth of Puerto Rico as of June 30, 2014.

In addition, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for the PRDE's fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the PRDE to its employees. This Statement requires recognition of a liability equal to the Net Pension Liability, which is measured as the Total Pension Liability, less the amount of the pension plan's Fiduciary Net Position. The Total Pension Liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. This Statement requires that most charges in the Net Pension Liability be included in pension expenses in the period of the change. To the extent practical, the financial statements presented for the periods affected should be restated. Also, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment to GASB No. 68* is required to be implemented simultaneously with the provisions of GASB No. 68.

On May 21, 2017, the Oversight Board, on behalf of the Government of Puerto Rico, filed a petition for the ERS to avail itself of Title III protections of PROMESA. With the submission of the petition under Title III of PROMESA, a process of restructuring of the obligations of said system under the supervision of the United States District Court for the District of Puerto Rico was initiated. Faced with this situation, the Puerto Rico Legislature Assembly approved the Act No. 106 on August 23, 2017, to ensure that retirees continue to receive their pensions, protect the individual contributions of public employees and protect the future of them. In addition, as a corrective measure, the contributions of public employees must be segregated and protected, and a New Defined Contribution Plan was established to ensure the future of public employees. Accordingly, a Defined Contribution Account, a trust account, separated from the general assets and accounts of the Government, was created as of July 1, 2017 in the name of each Participant, as established in Chapter 3 of this Act. Accordingly, the GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, should be applied in substitution of GASB No. 68 at the Commonwealth's basic financial statements.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The PRDE's employees participate in two different pension plans: the Teachers Retirement System ("TRS") and the Employees' Retirement System ("ERS") (see Note 8).

H. Other Postemployment Benefits

In accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, that replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, changes similar to those implemented on GASB No. 67, *Financial Reporting for Pension Plans*, and No. 68, *Accounting and Financial Reporting for Pensions* should be made.

In addition to the pension benefits described in Note 8, the Commonwealth provides other retirement benefits, such as Christmas Bonus, and postemployment healthcare benefits (OPEB) for its retired employees in accordance with local law. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth. There are no member or employer contributions on behalf of the MIPC. This benefit is financed on a pay-as-you-go basis from the General Fund of the Commonwealth of Puerto Rico (see Note 9).

3. INDIRECT COST RATE PROPOSAL

Generally, each year, the PRDE submits an indirect cost rate proposal for approval by the United States Department of Education ("the USDE"), the Audit Cognizant Agency. On April 28, 2023, the USDE entered into an Indirect Cost Rate Agreement No. 2023-017 with the PRDE which replaced the previous agreement No. 2022-062. This agreement includes final rates which became effective on July 1, 2019, until June 30, 2020 and also includes provisional rates, covering the period under audit, beginning on July 1, 2020 until June 30, 2024. The rates within the Agreement for FY2022 were 2.5% for school lunch programs and 3.0% 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.

4. CASH WITH FISCAL AGENTS (DEPARTMENT OF THE TREASURY OF THE COMMONWEALTH OF PUERTO RICO)

The funds of the PRDE are under the custody and control of the Secretary of the Treasury Department of Puerto Rico pursuant to Act No. 230 of July 23, 1974, as amended, known as "Commonwealth of Puerto Rico Accounting Law". The Treasury Department follows the practice of pooling cash equivalents under the custody and control of the Secretary of the Treasury. The funds of the PRDE in such pooled cash accounts are available to meet its current operating requirements.

5. FUND ADVANCES

The PRDE receives fund advances from the Treasury Department of Puerto Rico for the interim financing of Federal programs, as authorized by Act No. 21-1979. This Act establishes that all fund advances made will be reimbursed to the General Fund of the Commonwealth's Treasury as the corresponding Federal funds are received. During the fiscal year ended June 30, 2022, funds were advanced to the PRDE for this purpose.

6. LEASE COMMITMENTS

The PRDE is obligated under certain leases accounted for as operating leases. Operational leases do not grant property rights or tenant obligations; therefore, neither the assets nor liabilities of leasing arrangements are reflected in the accounting records. Most of the property is leased to the Public Buildings Authority of Puerto Rico, a component unit of the Commonwealth of Puerto Rico. Rent paid during the year that ended on June 30, 2022 under these lease agreements amounted to approximately \$73.5 million. The rental agreements and payments are controlled by the Puerto Rico Office of Management and Budget. Accordingly, information about payments for rent under operating leases future minimum was not available. This amount should be approximately the same expenditures in the following five fiscal years.

7. RELATED PARTY TRANSACTIONS

The PRDE as part of its regular operations has transactions with other governmental institutions for different type of services such as electric power, water and sewer, and school's building leases. Most significant related party transactions for the year ended June 30, 2022, are described below:

<u>Entity Name</u>	<u>Type of Service</u>	<u>Amount</u>
Puerto Rico Aqueduct and Sewer Authority	Water and Sewer Service	\$ 37,445,996
Puerto Rico Electric Power Authority	Electric Power Service	51,445,080
Public Building Authority	School's Building Leases	<u>73,529,412</u>
Total		<u>\$ 162,420,488</u>

8. RETIREMENT PLANS

Description of the Plans

Teachers Retirement System ("TRS")

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. 218-1951, as superseded by Act No. 91-2004, 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 No. 160-2013") as modified by the April 11, 2014 decision of the Puerto Rico Supreme Court. Benefit provisions vary depending on the 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 the 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.

8. RETIREMENT PLANS – continuation

The most important aspects of Act No. 160-2013, 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. 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 on 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 2019 was 8.5% pursuant to Act No. 160-2013 and Circular Letter No. 1300-14-18 issued by the Treasury Department.

Employees' Retirement System ("ERS")

All other employees of the 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 No. 447-1951"), 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. 447-1951, 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 a 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 No. 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, 1999 were subject to a longer vesting period and a reduced level of benefits, as provided by Act No. 1 of February 16, 1990 ("Act No. 1-1990").

continue

8. RETIREMENT PLANS – continuation

In 1999, Act No. 447-1951 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 participate solely in System 2000. Act No. 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 No. 447-1951 and Act No. 1-1990 and the defined contribution structure of System 2000, as amended by Act No. 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 contributed a minimum of 10% with no maximum restriction of their gross monthly salary. Commencing in fiscal year 2012, the PRDE shall pay a contribution of 10.275% of the employees' gross salary and increased 1% per year until fiscal year 2016 and 1.25% per year until fiscal year 2021. The employer contribution rate for fiscal year 2019 was 18.025%.

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 No. 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 ("Act No. 211-2015") was approved to create the Volunteer Pre-retirement Program that offers 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. 447-1951, as amended.

The incentives provided by the program include a compensation equal to sixty percent (60%) of the employee's 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 30, 2013 and the annuity of the Defined Contribution Hybrid Program. As of June 30, 2022, the PRDE have not made direct payments because of this Program.

continue

8. RETIREMENT PLANS – continuation

Pay-As-You-Go Funding

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new “Pay-As-You-Go” (PayGo) mechanism for the ERS.

Pursuant to Act No. 106-2017, the ERS was required to liquidate its assets and transfer the net proceeds to the Treasury Department of the Commonwealth to pay pension benefits. Also, the employers’ contributions and the Additional Uniform Contribution were eliminated.

Subsequently, on August 23, 2017, the Governor signed into law the “Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants” (Act No. 106-2017), which reformed the Commonwealth Retirement Systems. Act No. 106-2017 terminated the previously existing pension programs for the ERS’s participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 are now enrolled in a new defined contributions program. Act No. 106-2017 also established by law the PayGo mechanism for the payment of accumulated pension benefits and eliminated employers’ contributions and other analogous contributions. Approximately \$2 billion was allocated for the payment of PayGo benefits in each of the budgets for fiscal years 2018 through 2021.

Furthermore, Act No. 106-2017 modified the ERS’s governance. Under Act No. 106-2017, the ERS’ Board of Trustees was substituted with a new Retirement Board, which is currently responsible for governing all of the Commonwealth’s Retirement Systems.

Act No. 106-2017 also ordered a suspension of the ERS’s loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board’s discretion, the servicing of the ERS’s existing loan portfolio may be externalized. Pursuant to Act No. 106-2017, the employees of the ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8-2017.

At a basic level, ERS will need to hold some level of operating cash to account for any ongoing timing issues between receipt and disbursement of funds. The “PayGo” funding needed in a given year is the difference between actual contributions and actual disbursements:

- Contributions to ERS are primarily based on statutory percentage of payroll.
- Disbursements are comprised of benefit payments, administrative expenses, and Pension Obligation Bond debt service.

Contributions and disbursements will experience natural variation due to emerging demographic experience. Contributions and disbursements can also be greatly impacted by specific management decisions, such as an early retirement incentive program or other workforce reduction. A major issue that needs to be addressed by the Plans and the Commonwealth is determining what the process of Plans budgeting for “PayGo” funding will be. While the Plans can set an expected “PayGo” amount at the time of budgeting for an upcoming fiscal year, both actual contributions and disbursements can vary from expectations during the fiscal year.

- If the budget is set based on expected contributions and disbursements, in the event of adverse experiences during the fiscal year, should provide for additional funds from the sponsoring employers.
- If the Plans be permitted to develop a budget request of a “PayGo” amount for the fiscal year that includes a margin to provide a buffer against adverse outcomes.

continue

8. RETIREMENT PLANS – continuation

- And how would the impacts of specific management decisions be handled.

There are certainly many more operational details to be considered. “PayGo” operation is a complex issue that requires careful thought and planning, constant monitoring, and the ability to respond to emerging events quickly.

Pension Plan Fiduciary Net Position

As per June 30, 2017 Actuarial Valuation Report issued on March 24, 2020, the Actuaries state: “PRTRS liquid assets as of June 30, 2017 are less than half a year of benefit payments.”

Also, as per June 30, 2018 Actuarial Valuation Report issued on August 6, 2021, the Actuaries state: “Potential Pay-As-You-Go (“PayGo”) financing risks – Operating a retirement system on a PayGo basis may be conceptually simple, but can be very difficult in practice when reserves are limited or non-existent. While the valuation of liabilities for financial reporting purposes is conducted on an annual basis in arrears, benefit payments vary continuously and respond instantaneously to emerging events. There are also administrative expenses incurred continuously. Disbursements will experience natural variation due to emerging demographic experience and can also be greatly impacted by specific management decisions, such as an early retirement incentive program or other workforce reduction.”

The Puerto Rico Teachers Retirement System provides additional information of the Defined Benefit Program. They issue a publicly available financial report that includes financial statements and required supplementary information for TRS, as a component unit of the Commonwealth. That report may be obtained by writing to the Administration at Capital Center Building, 235 Arterial Hostos Ave., North Tower, 8th Floor, Hato Rey, PR 00919-1879.

The Employee’s Retirement System of the Government of the Commonwealth of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

9. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note 8, the Commonwealth provides other retirement benefits, such as Christmas Bonus, and healthcare benefits for its retired employees in accordance with local laws. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth.

Healthcare Benefits

The Commonwealth accounts for OPEB under the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, that replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, changes similar to those implemented on GASB No. 67, *Financial Reporting for Pension Plans*, and No. 68, *Accounting and Financial Reporting for Pensions* should be made.

This statement requires a systematic, accrual basis measurement and recognition of OPEB cost (expense) over a period that approximates employees’ years of service and provides information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding that plan. Annual postemployment benefits cost should equal the annual required contribution to the plans, calculated in accordance with certain parameters. These benefits are recorded as expenditures when paid in the General Fund of the Commonwealth of Puerto Rico.

continue

9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

The contribution requirement of Medical Insurance Plan Contribution (MIPC) is established by Act No. 95 approved on June 29, 1963 (Act No. 95-1963). MIPC is an unfunded cost sharing, multiple employer defined benefit other post-employment (OPEB) plan sponsored by the Commonwealth. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. MIPC covers substantially all full-time employees of (1) the Primary Government and (2) certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own post-employment benefit plans. Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age. Act No. 3-2013 eliminated this healthcare benefit to ERS MIPC members retired after June 30, 2013.

Funding Policy – the contribution requirement of MIP, is established by Act No. 95-1963. Its benefit consists of a maximum of \$100 per month per retiree or disabled member. There are no member or employer contributions on behalf of the MIPC. This benefit is financed on a Pay-As-You-Go basis from the General Fund of the Commonwealth of Puerto Rico.

Christmas Bonus Benefits

The Christmas Bonus was \$200 per retiree pursuant to Act No. 3-2013. This benefit is recorded as expenditures when paid in the General Fund of the Commonwealth of Puerto Rico.

10. COMMITMENTS AND CONTINGENCIES

A. Federal Awards

The PRDE 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 PRDE is required to comply with the audit requirements established by the Uniform Guidance.

The Report on Compliance with Requirements Applicable to Each Major Federal Award Program and on Internal Control over Compliance in Accordance with OMB Uniform Guidance for the year ended June 30, 2020, disclosed several instances of noncompliance with applicable laws and regulations that were considered to be material weaknesses. Of the Federal expenditures authorized for the fiscal year 2019-2020, the auditors determined that costs amounting to \$96,948 are disallowed. Of this amount, by Program Determination Letter [Audit Control Number (ACN 02-20-19329)] for the ALNs 84.027 and 84.173, the U.S. Department of Education, Office of Special Education and Rehabilitative Services (OSERS) determined the recovery of the amount of \$63,542. The PRDE is now evaluating the course of action related to this matter.

In addition, the Report on Compliance with Requirements Applicable to Each Major Federal Award Program and on Internal Control over Compliance in Accordance with OMB Uniform Guidance for the year ended June 30, 2021, disclosed several instances of noncompliance with applicable laws and regulations that were considered to be material weaknesses. Of the Federal expenditures authorized for the fiscal year 2020-2021, the auditors determined that costs amounting to \$206,889 are disallowed. Other amounts of possible disallowed costs are undetermined.

At the date of this financial statement, there are findings with questioned costs for the amount of \$341,553 for the fiscal year ending June 30, 2018 and for the amount of \$5,183,988 for the fiscal year ending June 30, 2019 that are still pending of final determination of the U.S. Department of Education.

10. COMMITMENTS AND CONTINGENCIES – continuation

B. Special Conditions

At the end of the FY2020, the USDE issued a letter on June 30, 2021, imposing specific conditions on all grants awarded by the USDE to Puerto Rico and to the PRDE, on or after the date of these specific conditions, including grants pursuant to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), including the Governor's Emergency Education Relief Fund (GEER Fund). These conditions are also imposed on all grants previously awarded by the USDE to the PRDE that are still available for obligation or liquidation by the PRDE on the date of these specific conditions, including any funds awarded by the USDE to the PRDE under the CARES Act Elementary and Secondary School Emergency Relief Fund (ESSER Fund). These specific conditions do not apply to funds awarded by the USDE to Puerto Rico institutions of higher education (IHEs) under the CARES Act Higher Education Emergency Relief Fund.

The USDE stated in this communication that the PRDE had not been able to demonstrate that it had the capacity to ensure fiscal management of the USDE grant funds to ensure compliance with Federal grant requirements and fiscal accountability without the use of a Third-Party Fiduciary Agent (TPFA).

Another specific conditions letter was recently received on June 30, 2022. These FFY 2022 Departmental Specific Conditions, as well as previous annual Departmental Special Conditions, are imposed to help ensure that grant funds awarded by the USDE to Puerto Rico or the PRDE are expended in accordance with applicable legal requirements and the appropriate fiscal accountability measures and management practices and controls.

In this recent letter, the USDE recognizes the continuing challenge Puerto Rico and the PRDE have faced over the past years as a result of the COVID-19 pandemic. A designated team known as the Puerto Rico Education Sustainability (PRES) Team is working with Puerto Rico and the PRDE to strengthen its partnership and build collaboration and trust.

A comprehensive technical assistance (TA) plan is being developed with the PRES Team in order to target specific areas of need. The execution of this TA plan aims to assist the PRDE in building its internal capacity to effectively manage federal education funds that will contribute to providing high-quality education for the students of Puerto Rico.

C. Every Student Succeeds Act

On December 10, 2015, President Obama signed Every Student Succeeds Act ("ESSA"), a New Education Law that reauthorizes the 50-year-old Elementary and Secondary Education Act ("ESEA"). This law was 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.

10. COMMITMENTS AND CONTINGENCIES – continuation

In the Consolidated State Plan, the PRDE should describe its implementation of programs across the ESEA and leverage funding to ensure a focus on equity and excellence for all students. The 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.

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

D. Other Audits

The PRDE is also audited by the Office of the Comptroller for Puerto Rico ("the Comptroller"), the Office of the Inspector General of the USDE (OIG) and other grantor agencies or institutions. The Comptroller 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 Comptroller 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.

E. Litigation

The PRDE is a defendant in lawsuits arising in the normal course of governmental operations, principally from claims for alleged violation of civil rights and discrimination in employment practices. According to the laws of the Commonwealth of Puerto Rico, the PRDE is fully represented by the Puerto Rico Department of Justice in defense of all legal cases against the PRDE. Any claims with negative financial impact will be paid from the General Fund of the Commonwealth of Puerto Rico, with no effect on the budget or resources of the PRDE.

F. Third-Party Fiduciary Agent

On March 24, 2021, the PRDE entered into a contract of approximately \$79.6 million with Alvarez and Marsal (A&M) Public Sector Services, LLC to serve as the Third-Party Fiduciary Agent (TPFA). Pursuant to this contract, A&M will perform financial management duties currently performed by Puerto Rico and the PRDE and required under EDGAR at 34 CFR Parts 75 and 76, and the Uniform Guidance at 2 CFR Part 200.

Because of the deficiencies identified in fiscal management of the USDE grant funds extend beyond the PRDE, given, for instance, the central management of funds through the Puerto Rico Department of Treasury (Hacienda, for Spanish acronyms) and the recent history of financial instability in Puerto Rico, the TPFA is also necessary to ensure compliance with Federal grant requirements and fiscal accountability for the USDE funds awarded to Puerto Rico offices and agencies in addition to the PRDE.

11. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA)

The Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 ("PROMESA" or the "Act"), was enacted into law on June 30, 2016. The Senate had passed PROMESA on June 29, 2016, and President Obama signed the Act into law on June 30, 2016, one day before the Commonwealth of Puerto Rico was expected to, and did, default on substantial payment obligations.

PROMESA Overview

Background

Prior to the enactment of PROMESA, Puerto Rico had been mired in an economic and demographic downward spiral for a decade. As of 2018, the economy was \$18 billion smaller in real terms and the population was more than half a million smaller (largely due to outmigration) than it was in 2005 – trends that, even before recent natural disasters, were projected to continue. Over 40% of the population (including ~58% of Puerto Rican children) lives below the poverty line, and ~47% are dependent on Medicaid for healthcare.

Meanwhile, before PROMESA, the consolidated Commonwealth's outstanding debt and pension liabilities had grown to over \$120 billion – with more than \$70 billion in financial debt and more than \$50 billion in pension liabilities – an amount almost twice the size of Puerto Rico's economy.

Most of Puerto Rico's unaffordable debt has been dramatically reduced. The restructuring of the central government debt saved Puerto Rico more than \$50 billion in debt payments to creditors. The restructurings of the Puerto Rico Sales Tax Financing Corporation (COFINA) saved about \$17.5 billion, the Highways and Transportation Authority (HTA) about \$3 billion, and the Puerto Rico Aqueducts and Sewers Authority (PRASA) about \$400 million. The savings of more than \$70 billion reduced the debt burden on the people of the Island by approximately \$24,000 per person in Puerto Rico. This provided critical relief and will allow the government to manage its future finances with more certainty.

Restructuring the debt, however, was only half of PROMESA's mandate. The debt restructuring of the Puerto Rico Electric Power Authority (PREPA) and the Puerto Rico Industrial Company (PRIDCO) is pending. In order to fulfill the mandate of PROMESA, fiscal responsibility still needs to be secured over the long term. Necessary improvements to systems and procedures are underway. However, appropriate spending discipline to preserve and institutionalize the recent success and prevent Puerto Rico from falling back into old habits of overpromising and overspending that resulted in bankruptcy has not been achieved. Strong financial management is critical to long-term fiscal stability and will be required to restore access to the capital markets at reasonable rates.

PROMESA

Unlike the PR Recovery Act, PROMESA is a federal legislative enactment. The Act is very extensive and the first of its kind in many respects. PROMESA includes a variety of provisions applicable to Puerto Rico, its instrumentalities and their liabilities and operations. The following is a summary of PROMESA, which is intended as a broad overview of primary provisions of PROMESA.

Oversight Board: The Act establishes a seven-member Oversight Board, the members of which will be designated by Congress and the President. The Oversight Board is provided with broad authority over Puerto Rico and instrumentalities of Puerto Rico which the Oversight Board designates as "covered" instrumentalities.

11. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

The Oversight Board is generally an autonomous body that has broad authority and discretion over Puerto Rico, including the ability to place Puerto Rico itself and a "covered" instrumentality into a debt restructuring proceeding established under the Act, require and approve a fiscal plan, require and approve a budget, oversee operations and implement changes that are necessary to comply with an approved fiscal plan or budget, approve the issuance of debt, hold hearings and issue subpoenas in furtherance of its functions, enter into its own contracts, analyze a territory's pensions and pension liability, approve voluntary settlements with creditors, and become a direct party in litigation against Puerto Rico or an instrumentality. The Oversight Board is, in effect, considered a division of the territory and can hire officers, professionals and legal counsel.

The definition of "territorial instrumentality" in PROMESA provides that such definition includes an "instrumentality of a territory". In addition, by analogy, the definition of "municipality" in the Bankruptcy Code is similarly defined as an instrumentality "of a State". However, courts have held, and commentators have noted, that a municipality under the Bankruptcy Code includes not only an instrumentality of a State, but also an instrumentality of an instrumentality of a State.

Conditions for Termination of the Oversight Board

The Oversight Board and the Government can more frequently communicate to the public and the markets about the financial performance of the Commonwealth. Since its establishment, the Oversight Board typically updates the fiscal plan annually, with a handful of exceptions. This annual update includes an updated revenue and expenditure forecast, with in-year public updates provided of actual performance relative to budget for TSA revenues and agencies. Moving forward, the Oversight Board will work with the Government to move toward periodic updates to forecasts, in addition to updates on actuals vs budget (e.g., quarterly).

This will allow the Oversight Board and Government to communicate transparently about changes to the outlook and get ahead of potential changes needed as conditions evolve. Note that in evaluating potential changes on a more frequent basis, the Oversight Board and Government may decide that no update is warranted (e.g., if the outlook is uncertain, or if the changes are not material).

The Oversight Board was designed to have a finite life, defined objectives, and defined tools and authorities to achieve those objectives. Every action taken by the Oversight Board over the past five years has been dedicated specifically and exclusively to completing its mission as stated in the law as soon as possible. The Oversight Board seeks to complete its work under PROMESA promptly, so that fiscal controls, fiscal sustainability, economic prosperity and growth can return to Puerto Rico.

PROMESA is specific in terms of how and when the Oversight Board can be terminated. The two provisions, found in Section 209 of PROMESA were designed to ensure that Puerto Rico's financial outlook is stabilized, and better financial management processes are institutionalized before the Board's oversight can be terminated. Now that the Commonwealth debt restructuring is completed and restructured debt service is included in Annual Budgets, in the coming months, the Oversight Board intends to provide more guidance on the performance standards and metrics by which the Section 209 requirements will be measured. In any case, while the Oversight Board must certify that these requirements have been satisfied, the Commonwealth Government bears the responsibility for completing the work necessary to meet Section 209 termination requirements.

11. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

An Oversight Board shall terminate upon certification by the Oversight Board that:

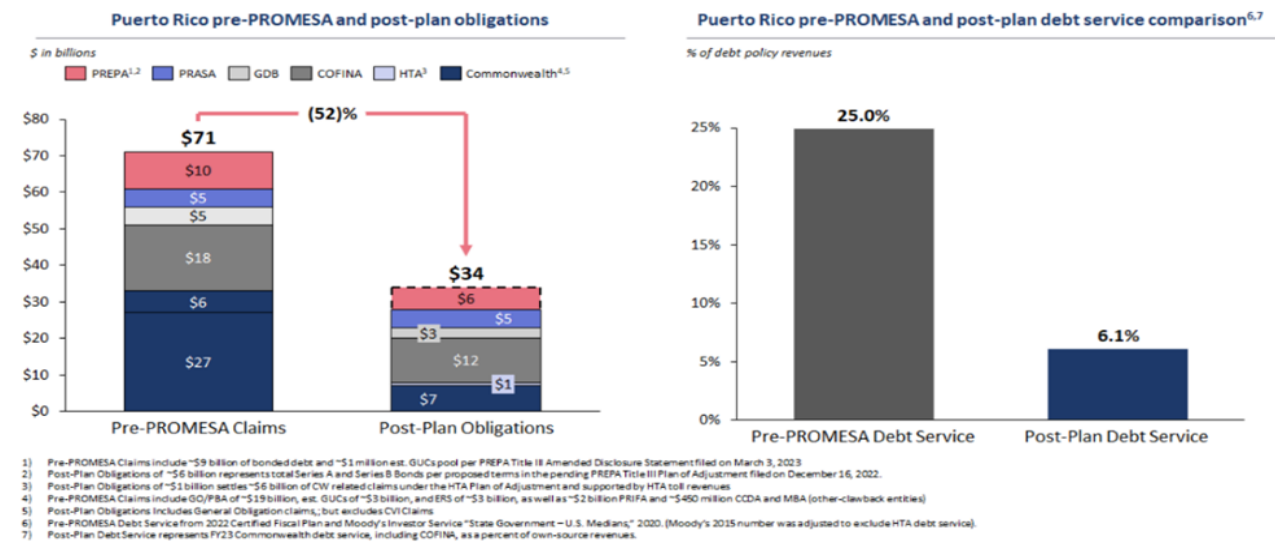
- 1) *the applicable territorial government has adequate access to short-term and long-term credit markets at reasonable interest rates to meet the borrowing needs of the territorial government; and*
- 2) *for at least 4 consecutive fiscal years--*
 - A. *the territorial government has developed its Budgets in accordance with modified accrual accounting standards; and*
 - B. *the expenditures made by the territorial government during each fiscal year did not exceed the revenues of the territorial government during that year, as determined in accordance with modified accrual accounting standards.*

Progress on Requirement Number 1: Adequate Access to Credit Markets at Reasonable Interest Rates

Sustainable Debt Restructuring

The Commonwealth's debt has been drastically reduced and made more affordable. Prior to the enactment of PROMESA, the Government accumulated a debt burden of \$71 billion, roughly \$24,000 per resident of Puerto Rico. Through the concerted efforts of the Oversight Board and the Government described below, the debt is on course to be reduced to \$34 billion, as shown in Exhibit 1.

EXHIBIT 1: EVOLUTION OF PUERTO RICO'S OBLIGATIONS PRE- AND POST-PROMESA¹



Debt Management Policy: The Commonwealth's Plan of Adjustment contains an ongoing Debt Management Policy that will lay the foundation for fiscal responsibility critical for future fiscal stability and sustainable economic growth. This Policy is adopted pursuant to Article 3 of Act 101-2020, as amended, known as the "Puerto Rico Debt Responsibility Act", which requires AAFAF adopt and maintain a debt management policy that is consistent with the Plan of Adjustment. Specifically, the Debt Management Policy includes several controls on the current and future indebtedness of the Commonwealth for net-tax supported debt that are described below.

continue

11. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

The definition of net-tax supported debt includes both the General Obligation bonds, the previously restructured COFINA debt and any debt the Commonwealth may issue in the future that is supported by its taxes. The 2023 Fiscal Plan does not anticipate the Commonwealth borrowing for any purpose over the next five years.

Debt Management Policy Concepts:

- Maximum annual debt service on all net-tax supported debt is limited to 7.94% or lower than the prior year's debt policy revenues (at the time of the Commonwealth's Title III exit the ratio was about 6.5%)
- Any new long-term borrowing must be for capital improvements only
- Newly issued debt must begin to amortize within two to five years of issuance
- Newly issued debt must have a maximum maturity of 30 years or less
- A refinancing of any debt must provide cash flow savings in every fiscal year and produce positive present value savings

Restoration of market access at reasonable rates: The Oversight Board will use specific performance standards and consult with independent third-party specialists to determine whether Puerto Rico has achieved market access at reasonable rates. The Commonwealth and its Instrumentalities will have to demonstrate they have achieved and sustained specific levels of fiscal performance and transparency consistent with municipal regulatory and market standards.

For example, in addition to bringing delinquent audited financial statements up to date, accessing credit markets will require the government to demonstrate its capacity to consistently deliver future audited financials on a timely basis, typically within 180 days from end of the prior fiscal year consistent with industry and Government Finance Officer Association (GFOA) "best practices" guidelines. Furthermore, the Commonwealth and Instrumentalities will have to adopt and institutionalize the financial practices and fiscal management reforms outlined elsewhere in this Fiscal Plan that are consistent with market standards and investor requirements. The government will also need to demonstrate its ability to comply with the regulatory requirements and securities laws for the issuance of municipal securities. This includes the ability to enter into a standard Continuing Disclosure Agreement (CDA) with dealers and obtain standard market legal and audit opinions.

To lay the groundwork to achieve market access, the Government recently met with credit agencies. It is likely credit rating agencies will look beyond the Section 209 provisions in assessing Puerto Rico's credit worthiness. The rating agencies maintain detailed models to assess the riskiness of public sector debts. In addition to its standard metrics, the rating agencies have also historically required sustained periods of fiscal reform and recovery before assigning new credit ratings for previously bankrupt issuers. The government will need to demonstrate its ability to meet the criteria necessary to achieve credit ratings. The Oversight Board continues to work with the Government so it can eventually meet the requirements to gain access to, and the trust of, the credit markets.

In evaluating whether Puerto Rico has achieved reasonable rates, the Oversight Board will look to see whether new or restructured outstanding debt is actively trading in the municipal market at reasonable levels relative to market indices and will look for evidence investors are ready to invest in Puerto Rico again, including the level of interest from traditional municipal bond buyers. The Oversight Board will rely on the expert opinion of independent third-party entities with municipal market experience for compliance with this requirement.

11. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

The Financial Management Agenda

The 12 required initiatives to support the Financial Management Agenda, described in Exhibit 1, are grouped into three categories: Foundational, Central, and Supporting:

EXHIBIT 1: INITIATIVES TO ACHIEVE STRONG FISCAL MANAGEMENT

Financial Management Agenda initiatives

Foundational initiatives – lay the foundation for sound, sustained financial management	Office of the Chief Financial Officer	Aligns financial management functions across the Government under singular leadership, enabling consistent policies and procedures
	A Civil Service Reform (CSR)	Will result in more competitive compensation and better recruiting, training, and performance management for public service employees
Central initiatives – essential for meeting the conditions for terminating the Oversight Board	Timely Audited Financial Statements	Fulfill a prerequisite for issuing bonds at reasonable interest rates, and debt management policy implementation
	Debt Management Policy	Is necessary to assure investors, safeguard against future over borrowing, and ensure future market access
	Budgeting Best Practices	Budget best practices and federal funds management work together to help the Gov. more accurately forecast available revenue, prepare, and adhere to responsible spending plans, and maximize the use of federal funding to supplement local revenue sources
	Federal Funds Management	
Supporting initiatives – support other aspects of financial management improvement	Automated time and attendance	Will ensure that only active employees who are working get paid
	Cash & bank account monitoring	Will close idle government bank accounts and reduce erroneous bank account activity and inaccurate cash reporting
	Procurement best practices	Will make Gov. purchases transparent to the public, reduce non-competitive contract awards, and standardize procurement rules
	Non-partisan legislative scoring	Will ensure that the fiscal impact of legislative actions is accurately estimated and that budgets are based on revenue forecasts
	Real estate best practices	Will ensure that all Gov.-owned property is accounted for, property maintained, and delivers the maximum value to the people of PR
	Real property registry	Will streamline the land registration process, verify ownership of all land on the Island, and assist with tax compliance and distribution of DRF

Implementation of the Agenda

While the Government has taken initial steps to ensure that the Agenda initiatives are implemented in a coordinated manner that delivers promised results, implementation must be strengthened. Key steps the Government must take to achieve a successful implementation include:

- A Governor’s Management Council (GMC) consists of the chief operating officers (or equivalent senior officials) of major agencies and Government public corporations. The GMC, headed by the Governor, with the CFO as deputy, will serve as a steering committee for the Agenda’s implementation. Importantly, the GMC will provide a way for leadership across agencies to support Government-wide priorities and to build a community of management practice that identifies obstacles, solves problems, and innovates together. This initiative has been kicked off by the OCFO but is still a work in progress.
- Alternatively, expanding the role of the existing Enterprise Resource Management (ERP) Steering Committee, which may include monitoring implementation of the Agenda. The Steering Committee, led by Hacienda, includes representatives from all agencies who are responsible for Agenda initiatives.

continue

11. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

- To provide Puerto Rico with the best chance for success and make the most of limited resources, the Governor must direct a small number of large agencies to meet standards of financial management excellence and provide financial services to smaller entities. These agencies can serve as centers of excellence to implement and maintain modern financial management standards across more than 100 units of government.

Key steps the Government has already undertaken to further the implementation of the Agenda are:

- Executing the ERP Solution contract and a service agreement with an ERP implementor. The ERP Implementation began in November 2022. The Oversight Board anticipates continued collaboration as implementation begins.
- Creating detailed implementation plans for several initiatives, with definitive timelines, milestones, action steps, budgets, and responsibilities.
- Enacting Act 1-2023 for the creation of the Budget Office of the Legislative Assembly (OPAL for its Spanish acronym).
- Issuing the FY2019 and FY2020 audited financial statements.
- Establishing a comprehensive debt management policy approved by the Oversight Board.

The 2023 Fiscal Plan requires that the OCFO complete the required implementation items in Exhibit 3.

EXHIBIT 3: ERP REQUIRED IMPLEMENTATION ACTIONS

	Required implementation actions	Responsible party	Deadline & status
To be completed in FY 22	<ul style="list-style-type: none"> Create an Executive Project Steering Committee, chaired by the CFO and composed by other executive level officials to oversee the implementation. 	<ul style="list-style-type: none"> OCFO 	<ul style="list-style-type: none"> May 2021 <i>Completed</i>
	<ul style="list-style-type: none"> Designate project management team (with 3+ FTEs) to monitor and evaluate the progress and completion of the Enterprise Resource Management implementation. This team should be dedicated to this project on a full-time basis. 	<ul style="list-style-type: none"> OCFO 	<ul style="list-style-type: none"> June 2021 <i>Completed¹</i>
To be completed in FY 23	<ul style="list-style-type: none"> Agree on a project plan with milestones and budget for completion of phases and projections of total project completion. 	<ul style="list-style-type: none"> OCFO 	<ul style="list-style-type: none"> November 2022 <i>Completed</i>
	<ul style="list-style-type: none"> Select ERP solution and implementer. 	<ul style="list-style-type: none"> OCFO 	<ul style="list-style-type: none"> December 2022 <i>Completed</i>
	<ul style="list-style-type: none"> Review and change accounting system cycles, perform data clean-up to ensure new system does not start with inaccurate data, change management strategy for staff involved in all accounting cycles. 	<ul style="list-style-type: none"> OCFO 	<ul style="list-style-type: none"> June 2023 <i>Revised deadline</i>
To be completed in FY 24	<ul style="list-style-type: none"> Complete Annual Financial (ACFR) track 	<ul style="list-style-type: none"> OCFO 	<ul style="list-style-type: none"> October 2023 <i>New milestone</i>
	<ul style="list-style-type: none"> Reassess the full project timeline and fees based on the results achieved in Wave 1. Furthermore, at the conclusion of Wave 1, present the impact of lessons learned throughout the implementation process of Wave 1. 	<ul style="list-style-type: none"> OCFO 	<ul style="list-style-type: none"> December 2023 <i>Revised deadline</i>
To be completed in FY 25	<ul style="list-style-type: none"> Complete finance, budget, and sourcing track for all central Government agencies 	<ul style="list-style-type: none"> OCFO 	<ul style="list-style-type: none"> July 2024 <i>New milestone</i>
	<ul style="list-style-type: none"> Complete human capital management track for all central Government agencies 	<ul style="list-style-type: none"> OCFO 	<ul style="list-style-type: none"> July 2024 <i>New milestone</i>
	<ul style="list-style-type: none"> Complete ERP Wave 1 implementation for the internal ERP system at Hacienda. 	<ul style="list-style-type: none"> OCFO 	<ul style="list-style-type: none"> September 2024 <i>Revised deadline</i>

1. Milestone budget incentive was released on November 4, 2021, upon completion

11. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

Timely Audited Financial Statements

Puerto Rico has had fiscal management challenges for years that created growing Government deficits. For the Government to adhere to structurally balanced budgets reflecting ongoing fiscal discipline, it must return to the timely publication of audited financial statements and related information—key steps to regain access to credit markets, as required by PROMESA for the termination of the Oversight Board. Best practice calls for audited statements to be published no later than 180 days (six months) after the end of each fiscal year.

The 2023 Fiscal Plan requires the following implementation activities:

- Audited financial statements will be issued no later than 180 days (six months) after the end of the fiscal year, consistent with financial reporting preferred best practices according to the Government Finance Officers Association (GFOA). To ensure this schedule is met, the Government will direct that:
 - Component units audited financial statements are issued three months after the close of the fiscal year.
 - Reporting formats and distribution are standardized.
 - Auditors identify control deficiencies to managers and suggest corrective actions prior to publishing an audit.
- Financial information will be consistently monitored and updated. Agencies and component units will:
 - Follow the policies and procedures that define a ‘record to report’ cycle, such as:
 - Preparing monthly, quarterly, and annual accounting closings and financial statements
 - Performing recurring monthly cash reconciliations to close accounting period
- Agencies and component units will improve their internal capacity and capability to prepare timely and accurate financial statements.
- Personnel will be provided with job-specific training.
- The financial reporting module of the ERP system under development will be utilized to support the Government in performing these tasks. Specifically, the financial reporting module of the ERP system will (i) allow for more timely reporting of actuarial reports, (ii) create an ability to close financial records in a timely manner, and (iii) complete the necessary steps for the timely submission of the annual comprehensive financial report.

Progress to date

The most recent ACFRs, for fiscal years 2019 and for 2020, were published in April 2022 and September 2022, 34 and 27 months after the close of the respective fiscal years. Although these were not finalized within the six-month period, the Government is making progress in reducing the backlog of past ACFRs.

Multi-year contracts have been established to audit the Basic Financial Statements and component units, which should allow a more coordinated and efficient audit process. As noted, the ERP system cloud provider and implementation partner firm have been selected.

11. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

EXHIBIT 5: TIMELY AUDITED FINANCIAL STATEMENTS

	<u>Required implementation actions</u>	<u>Responsible party</u>	<u>Deadline & status</u>
To be completed in FY 22	▪ Issue FY19 audited financial statement.	▪ OCFO	▪ April 2022 Completed
	▪ Issue FY20 audited financial statement.	▪ OCFO	▪ September 2022 Completed
To be completed in FY 23	▪ Expedite actuarial reports to complete CU financial a "record-to-report" cycle.	▪ OCFO	▪ Completed
	▪ Establish a multi-year contract with prequalified contractors for ACFR and Component Units.	▪ OCFO	▪ Completed
	▪ Issue FY21 audited financial statement.	▪ OCFO	▪ March 2023 Revised deadline
	▪ Perform closing financial records on a monthly, interim, and annual basis for agencies and Component Units.	▪ OCFO	▪ December 2023 On-Track
	▪ Publish a management letter for each audit that includes management's comments and corrective actions for auditor-identified control deficiencies.	▪ OCFO	▪ Ongoing
To be completed in FY 24	▪ Issue FY22 audited financial statement.	▪ OCFO	▪ September 2023 Revised deadline
	▪ Develop policies and procedures that define and support a "record-to-report" cycle.	▪ OCFO	▪ December 2023 Revised deadline

Progress on Requirement Number 2: Four Years of Budgets Developed with Modified Accrual Accounting Principles and Expenditures which have not Exceeded Revenues

Four Years of Developing Budgets in Line with Modified Accrual Accounting Standards

PROMESA’s conditions for termination of the Oversight Board include that the Government budget is in accordance with modified accrual accounting standards and that expenditures do not exceed revenues for four consecutive fiscal years. Meeting these conditions will require adopting and implementing best practices for budget development and monitoring, revenue forecasting, and accounting. The 2023 Fiscal Plan requires the following implementation activities:

- The OCFO will establish a revenue committee that reviews budget-to-actuals and provides guidance on the revenue forecast for the next twelve months. The revenue committee will be presented with economic forecasts provided by the Government and other experts to support a consensus view of macroeconomic trends. The recommendations of the revenue committee will provide parameters for budget development and appropriations processes.
- The OCFO will propose legislation requiring quarterly revenue analysis and budgetary adjustments as necessary. The proposed legislation will include language to ensure that a revenue source is identified before any spending bill is enacted.
- With the implementation of the ERP system, the OCFO will present the results of the revenue and expense budget-to-actuals variance report each quarter, informing the public of any required spending changes based on recommendations from the revenue committee. The OCFO will be able to explain all variances from the original forecast revenues.
- The OCFO will propose legislation to amend Act 230-1974 to ensure the Office of Management and Budget (OMB) has authority to assign budgets for the entire Commonwealth
- The OCFO will provide a summary of SRFs that can be consolidated into the General Fund (GF) and a list of SRFs that will maintain zero-balance sweep accounts.

continue

11. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

- OMB will develop training materials to ensure all entities are using best practices to prepare budgets. OMB will host training seminars every two months for financial staff members.
- The OMB will leverage OCFO staffing initiatives to increase the financial management capacity across government.
- To promote budgetary control processes, OMB will evaluate and issue recommendations regarding reapportionment requests for the Commonwealth entities that have a total Budget GF appropriation under \$5 million.

Progress to date

Due to the importance and impact on the operations of the rest of the government entities, the Government determined that the OMB's Budget Division was one of the essential areas that required attention. As part of its analysis, the OMB reviewed different organizational structures and researched best practices that could be implemented in this division, in compliance with all the emerging requirements. As a result of these efforts, OMB developed a work plan to improve on three main areas:

- Budget Operations – focused on the daily budget operations regarding government agencies
- Strategic Planning – focused on the planning of the budget process both long and short-term
- Quality and Compliance – focused on monitoring compliance requirements and regulations as defined in the approved Budget, as well as the Fiscal Plan

OMB continues seeking and implementing best practices regarding access to information as well as complying with government management in accordance with Fiscal Transparency public policy for the Government of Puerto Rico. As a direct result of these efforts, new modules of Enterprise Resource Management (ERP) have been developed, such as Roster, CapEx and Spending Projections.

These modules have the main objective of providing clear visibility to standardize and make the budget process more agile and efficient.

There has been additional progress made:

- Bi-weekly meetings with Hacienda are in place to review budgets.
- The principle of revenue neutrality is applied to some extent when preparing budgets, though not yet sufficiently institutionalized into budget development.
- Three circular letters have been published, including:
 - No. 1300-03-22: To establish the monthly workplan requirement for all agencies and public corporations.
 - No. 1300-05-22: To require a corrective action plan for all control deficiencies identified by external auditors, regulators, the comptroller's office, etc.
 - No. 1300-13-22: To establish a collaboration with the General Inspector Office of Puerto Rico for them to visit each agency and component unit to ensure their compliance with the monthly closings.

Limited progress has been made in establishing a reporting process that includes the Judiciary and Legislative branches.

There have been delays in the completion of the items due to cost overruns.

continue

11. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

EXHIBIT 8: BUDGET BEST PRACTICES

	<u>Action items</u>	<u>Responsible party</u>	<u>Deadline & status</u>
To be completed in FY 24	▪ Prepare training materials to support budget best practices and compliance with modified accrual.	▪ OMB	▪ July 2023 <i>Revised deadline</i>
	▪ Prepare reporting template or financial system to allow for consolidated reporting in a consistent format showing compliance with modified accrual.	▪ OCFO	▪ October 2023 <i>Revised deadline</i>
	▪ Enact legislation to establish a revenue committee requiring quarterly revenue analysis and identification of revenue sources prior to enactment of spending bills.	▪ Legislature and AAFAF	▪ October 2023 <i>Revised deadline</i>
	▪ Establish a reporting process that includes the Judiciary and Legislative branches.	▪ AAFAF	▪ December 2023 <i>Revised deadline</i>
	▪ Issue circular letters detailing reporting requirements.	▪ OCFO and AAFAF	▪ December 2023 <i>Revised deadline</i>
	▪ Prepare and present consolidated reporting. Timely and regularly reported budget to actuals of revenues and expenses at the close of each month.	▪ OCFO	▪ May 2024 <i>Revised deadline</i>
	▪ Amend Act 230-1974 to allow OMB oversight over all Commonwealth entities.	▪ Legislature	▪ May 2024 <i>Revised deadline</i>

Fiscal Plan – 2023

The 2023 Fiscal Plan requires the following implementation activities:

- The OMB has the responsibility of ensuring compliance and adequate management of federal funds by state government agencies. Currently, federal funds represent 40% of PR's FY2023 Consolidated Budget.
- Grants Management Office (GMO) will be centrally managed within the OMB and reporting requirements will be harmonized across agencies.
 - OMB will publish bi-weekly reports of disbursements of federal funds.
 - Centralized reporting of funds will be utilized to understand which federal funds are not being optimized.
 - Agencies will be aware of all the funding made available to them from the disaster relief funds and COVID-stimulus, among other recurrent programming sources.
- All agencies will use a centralized accumulation fund to track federal allocations, obligations, commitments, and disbursements of federal funding.
- Grant revenue and expenditures and reprogramming funds will be tracked and reported monthly.
 - Agencies will use a harmonized version of the most recent GASB practices for reporting revenues.
- Federal Funds Management will benefit greatly from using the Grants Management Module of the ERP system. This module will allow the Government to monitor fund performance by viewing funds available at both detail and summary levels.

continue

11. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

- To facilitate the management and oversight of federal funds, the OMB, together with the OCFO, must, establish a GMO using existing governmental personnel and financial resources. This office would have several responsibilities, including:
 - Risk Management:
 - Compliance – Reducing possible noncompliance by providing technical assistance to state agencies and municipalities.
 - Unspent funds – Equip local government entities with the information and tools needed to manage and use federal grants efficiently and in accordance with federal regulations.
 - Lost opportunities – In collaboration with the federal government, provide the latest information on new federal funding opportunities and their eligibility requirements to state agencies.
 - Capacity Building:
 - The GMO will provide capacity building activities to maximize the return of federal investment in Puerto Rico.
 - Training will be provided on topics such as federal regulations, sources of funding, reporting, best practices, and overall grant management.
 - Supporting the development of local capacity ensures long-term compliance with federal regulations and requirements.
 - Implement change management within each agency to ensure continuation of federal funds.
- Policy Making:
 - Development of uniform models of Manuals and Standard Operating Procedures to establish the minimum requirements for agencies to follow when drafting their own.
 - Development of educational material, guides, and communications in accordance with applicable laws and regulations.
 - These models will ensure uniformity throughout the government-wide framework in the management of federal funds as well as improve visibility and accountability.
 - The policy-making process will include possible changes and amendments in current laws, circular letters, and local regulations to ensure they are in conformity with federal guidelines and regulations, such as 2 CFR Part 200.
- Fiscal Guidance:
 - Coordinated budgets to complement state and federal funding sources, in compliance with applicable laws and regulations.
 - Develop corrective action plans to provide the technical assistance necessary to rectify any critical findings.
 - Provide technical assistance to ensure compliance with matching funds and negotiate indirect cost rate agreement, when applicable.
- Facilitator with State and Federal Government:
 - The GMO, in close collaboration with the OCFO, will serve as a liaison between the Government of Puerto Rico and Federal agencies to achieve continuity of efforts, as well as collaborate in the development of local capacity.
 - With the GMO providing support between local agencies and their federal counterparts, a consistent exchange of information will further expand the knowledge in the local government improving compliance and streamlining disbursements.

continue

11. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

- Data Analysis:
 - Assess federal grant data, allowing for strategic decision making and reduction of missed opportunities.
 - Collaborate with the ERP Steering Committee to ensure the system contemplates the requirements for federal programs.
 - If necessary, analyze the implementation of grants management software to have visibility of all federally funded programs in Puerto Rico.

Progress update

- The OMB has appointed a Director of the Grants Management Office (GMO). The GMO is to propose a suitable structure for the office.
- The creation of the Grants Management Office is currently being reviewed by the Oversight Board.
- The Grants Management Office is to be overseen by the Director of OMB.

12. SUBSEQUENT EVENTS

Specific Conditions – Federal Fiscal Year 2023

As a result of official letter that the PRDE received on June 29, 2021, the USDE imposed specific conditions based on information provided to the PRDE over time by the PRDE Internal Audit Office, audits and investigations conducted by the USDE's Office of Inspector General, and evidence collected by the USDE's Risk Management Services Division during its provision of technical assistance. According to such information, the PRDE had not maintained improvements accomplished under the 2004 Compliance Agreement among Puerto Rico, the PRDE, and the USDE; the 2007 Memorandum of Agreement among Puerto Rico, the PRDE, and the USDE; and the 2007 Compliance Agreement among Puerto Rico, the PRDE, and the USDE.

The specific Conditions were imposed on all grants awarded by USDE to Puerto Rico and to the PRDE, including grants pursuant to the: Coronavirus Aid, Relief, and Economic Security Act (CARES Act); Governor's Emergency Education Relief Fund (GEER Fund); Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSA Act); and the American Rescue Plan (ARP). These conditions were also imposed on all grants previously awarded by the USDE to Puerto Rico and the PRDE that are still available for obligation or liquidation by Puerto Rico or the PRDE, including any funds awarded by the USDE to Puerto Rico or the PRDE under the CARES Act, GEER Funds, CRRSA Act and ARP.

The specific conditions do not apply to funds awarded by the USDE to Puerto Rico institutions of higher education (IHEs) under the CARES Act Higher Education Emergency Relief Fund or to other funds awarded by the Office of Postsecondary Education to Puerto Rico.

Hurricane FIONA – State of Emergency

On September 18, 2022, before Hurricane Fiona made landfall, the President approved an Emergency Declaration for the Commonwealth of Puerto Rico. The declaration authorized FEMA to provide assistance for emergency measures to save lives and to protect property and public health and safety and fund emergency protective measures.

On September 21, 2022, President Biden approved a Major Disaster Declaration for the Commonwealth of Puerto Rico, authorizing Individual and Public Assistance for impacted municipalities and hazard mitigation.

12. SUBSEQUENT EVENTS – continuation

On September 22, 2022 the President authorized 100% Federal Cost Share for the Government of Puerto Rico to support Public Assistance for 30 days. This provides 100% Federal funding for Debris Removal and Emergency Protective Measures and helps the Commonwealth begin their recovery without adding additional financial burden to communities that are working to recover.

Extension of Single Audit Submission

The Puerto Rico Department of Education (PRDE) submitted a request for an extension of the date of completion and submission of the FY 2022 and 2023 Single Audit report, as required under Subpart F of 2 CFR 200, Audit Requirements.

The Single Audit for fiscal year 2022 has been subject to delays due to difficulties in the collection of financial data, which represented significant amounts in the financial statements. The complexities surrounding the aforementioned matters have demanded additional time for thorough examination, resolution, and documentation to ensure the accuracy and completeness of our Single Audit for the year 2022.

The PRDE has evaluated subsequent events through June 11, 2024, the date on which the financial statement was available to be issued. No additional subsequent events were identified that should be disclosed or adjusted in the financial statement or its notes.

END OF NOTES

PART II

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE**

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COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

<i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>	<i>Assistance Listing Number</i>	<i>Pass-Through Entity Identification Number</i>	<i>Pass-Through To Subrecipients</i>	<i>Total Federal Expenditures</i>
U.S. DEPARTMENT OF AGRICULTURE PROGRAMS:				
<i>Child Nutrition Cluster:</i>				
School Breakfast Program (SBP)	10.553		\$ 2,694,992	\$ 12,093,488
National School Lunch Program (NSLP) – Food Donation – Commodities (Non-Cash Assistance)	10.555		-	14,147,856
COVID-19 National School Lunch Program (NSLP)	10.555		731,035	5,994,055
National School Lunch Program (NSLP)	10.555		11,109,499	84,384,963
<i>Total National School Lunch Program (NSLP)</i>			11,840,534	104,526,874
Summer Food Service Program for Children (SFSP)	10.559		5,786,180	40,115,134
Fresh Fruit and Vegetable Program (FFVP)	10.582		10,794	10,794
<i>Total Child Nutrition Cluster</i>			20,332,500	156,746,290
<i>Other Programs:</i>				
Child and Adult Care Food Program (CACFP)	10.558		16,705,138	16,975,439
State Administrative Expenses for Child Nutrition	10.560		-	1,745,673
Child Nutrition Discretionary Grants Limited Availability	10.579		91,142	235,122
State Pandemic Electronic Benefit Transfer (P-EBT) Administrative Costs Grants	10.649		33,417	33,417
<i>Total U.S. Department of Agriculture Programs</i>			37,162,197	175,735,941
U.S. DEPARTMENT OF TREASURY PROGRAM:				
Puerto Rico Office of Management and Budget – Coronavirus Relief Fund	21.019	N/AV	-	23,629,921
<i>Total U.S. Department of Treasury Program</i>			-	23,629,921
U.S. NATIONAL ENDOWMENT OF THE HUMANITIES PROGRAM:				
Grants to States	45.310		-	1,989,255
<i>Total U.S. National Endowment of the Humanities Program</i>			-	1,989,255

continue

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

<i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>	<i>Assistance Listing Number</i>	<i>Pass-Through Entity Identification Number</i>	<i>Pass-Through To Subrecipients</i>	<i>Total Federal Expenditures</i>
U.S. DEPARTMENT OF EDUCATION PROGRAMS:				
Student Financial Assistance Cluster:				
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		-	129,918
Federal Work-Study Program	84.033		-	147,965
Federal Pell Grant Program	84.063		-	3,697,064
Total Student Financial Assistance Cluster			-	3,974,947
Special Education Cluster (IDEA):				
Special Education – Grants to States (IDEA, Part B)	84.027		-	135,493,791
Special Education – Preschool Grants (IDEA Preschool)	84.173		-	2,503,689
Total Special Education Cluster (IDEA)			-	137,997,480
Other Programs:				
Adult Education – Basic Grants to States	84.002		958,557	17,407,975
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010		-	353,368,701
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013		-	309,332
Impact Aid (Title VII of ESEA)	84.041		-	2,490,532
Career and Technical Education - Basic Grants to States (Perkins V)	84.048		-	22,597,458
School Safety National Activities	84.184		-	23,855
Education for Homeless Children and Youth	84.196		-	1,953,136
Twenty-First Century Community Learning Centers	84.287		10,173,504	10,833,793
English Language Acquisition State Grants	84.365		-	1,966,757
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367		-	53,614,192
Grants for State Assessments and Related Activities	84.369		-	5,309,337
Student Support and Academic Enrichment Program	84.424		-	2,024,736
COVID-19 Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund	84.425D			573,655,839
COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Student Aid Portion	84.425E		-	5,034,681
COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Institutional Portion	84.425F		-	17,592
COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Minority Serving Institutions (MSIs)	84.425L		-	84,633
COVID-19 Education Stabilization Fund: Coronavirus Response and Relief Supplemental Appropriations Act, 2021 – Emergency Assistance to Non-Public Schools (CRRSA EANS)	84.425R		-	2,937,305
COVID-19 Education Stabilization Fund: American Rescue Plan – Elementary and Secondary Schools Emergency Relief Fund (ARP ESSER)	84.425U		-	45,127,912
COVID-19 Education Stabilization Fund: American Rescue Plan – Emergency Assistance to Non-Public Schools (ARP EANS)	84.425V		-	993
COVID-19 Education Stabilization Fund: American Rescue Plan – Elementary and Secondary School Emergency Relief Fund – Homeless Children and Youth (ARP-HCY)	84.425W		-	262,299
Total Education Stabilization Fund			-	627,121,254
Hurricane Education Recovery – Immediate Aid to Restart School Operations (Restart) Program	84.938A		-	66,290,152
Hurricane Education Recovery – Emergency Assistance to Institutions of Higher Education	84.938T		-	415,698
Total Hurricane Education Recovery			-	66,705,850
Total U.S. Department of Education Programs			11,132,061	1,307,699,335

continue

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity Identification Number</u>	<u>Pass-Through To Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PROGRAM:				
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	93.079		-	10,000
Total U.S. Department of Health and Human Services Program			-	10,000
U.S DEPARTMENT OF HOMELAND SECURITY PROGRAM:				
Central Office for Recovery Reconstruction and Resiliency (COR3) – Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	000-ULGE2-00	-	15,973,136
Total U.S. Department of Homeland Security Program			-	15,973,136
Total Expenditures of Federal Awards			\$ 48,294,258	\$ 1,525,037,588

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

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1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (“the Schedule”) includes the Federal award activities of the Puerto Rico Department of Education of the Commonwealth of Puerto Rico (PRDE) under programs of the Federal government for the year ended June 30, 2022. 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). Because the Schedule presents only a selected portion of the operations of the PRDE, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statement.

The PRDE reporting entity is defined in Note (1) (A) to the financial statement. All Federal financial awards received directly from Federal agency as well as Federal financial awards passed-through other government agencies, if any, are included on the Schedule.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Expenditures reported on the Schedule are reported on the cash basis of accounting, which is *Other Comprehensive Basis of Accounting (OCBOA)*. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. 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 Disbursements and Net Changes – Governmental Funds (the “Statement”).
- B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.
- C. Pass-through entity identifying numbers are presented where available and applicable.

3. INDIRECT COST RATE

The PRDE has elected not to use the 10% de minimis indirect cost rate. The amount expended includes \$13.6 million claimed as an indirect cost recovery using an approved indirect cost rate of 3.1% for school lunch programs and 3.0% for all other programs based on salaries and wages, including fringe benefits.

4. SCHEDULE NOT IN AGREEMENT WITH OTHER FEDERAL AWARD REPORTING

The information included in the Schedule may not fully agree with other Federal award reports submitted directly to Federal granting agencies.

5. ASSISTANCE LISTING NUMBER

The Assistance Listing Number, formerly known as the Catalog of Federal Domestic Assistance (CFDA) Number, is a five-digit number assigned in the awarding document for all Federal assistance award mechanisms, including Federal grants and cooperative agreements.

6. CLUSTERS

A cluster of programs means Federal programs with different Assistance Listing 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:

<i>Cluster Title</i>	<i>Federal Program</i>	<i>Assistance Listing Number</i>
Child Nutrition:	School Breakfast Program (SBP)	10.553
	National School Lunch Program (NSLP) – Food Donation – Commodities (Non-Cash Assistance)	10.555
	COVID-19 National School Lunch Program (NSLP)	10.555
	National School Lunch Program (NSLP)	10.555
	Summer Food Service Program for Children (SFSP)	10.559
	Fresh Fruit and Vegetable Program (FFVP)	10.582
Student Financial Assistance:	Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007
	Federal Work-Study Program	84.033
	Federal Pell Grant Program	84.063
Special Education (IDEA):	Special Education – Grants to States (IDEA, Part B)	84.027
	Special Education – Preschool Grants (IDEA Preschool)	84.173

7. RELATIONSHIP TO STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND NET CHANGES – GOVERNMENTAL FUNDS

Expenditures of Federal awards are reported in the PRDE’s Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds in the Federal Title I Fund and Other Federal Governmental Funds columns.

8. 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.

9. 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 U.S. Department of Agriculture. This program is not included in the PRDE’s Financial Statement.

10. SCHOOLWIDE PROGRAMS 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.

11. SCHOOLWIDE PROGRAMS FUNDS – continuation

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. The following program amounts were expended by the PRDE in its schoolwide program:

<i>Federal Assistance Listing Number</i>	<i>Name of Federal Program</i>	<i>Expenditures in the Schoolwide Fund</i>
84.010	Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	\$ 300,719,739
84.365	English Language Acquisition State Grants	1,556,435
84.367	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	48,217,272
N/A	Community School Program – State Funds	434,605,789
		<u>\$ 785,099,235</u>

12. CONSOLIDATED PROGRAM FUNDS

The Elementary and Secondary Educational Act (ESEA), as amended by 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 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 programs amounts were expended by the PRDE in its consolidated fund:

<i>Federal Assistance Listing Number</i>	<i>Name of Federal Program</i>	<i>Expenditures in the Consolidated Fund</i>
84.010	Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	\$ 24,401,906
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	2,065
84.287	Twenty-First Century Community Learning Centers	448,842
84.365	English Language Acquisition State Grants	164,219
84.367	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	2,281,475
84.424	Student Support and Academic Enrichment Program	107,377
		<u>\$ 27,405,884</u>

continue

13. COVID-19 FUNDS

In early 2020, the U.S. Congress appropriated funds in response to the COVID-19 pandemic. These funds were made possible through the Coronavirus Aid, Relief, and Economic Security (CARES) Act and other supplemental legislation. In March of 2021, additional funds were appropriated through the American Rescue Plan Act.

The main goal for the use of the COVID-19 funds is to address the impact that COVID-19 has had, and continues to have, on elementary and secondary schools across the Nation and to help safely reopen and sustain the same operation of schools.

To maximize the transparency and accountability of COVID-19 expenditures, governments must separately identify COVID-19 expenditures on the SEFA. This includes the new COVID-19 only programs.

14. SUBMISSION OF SINGLE AUDIT REPORTING PACKAGE

The Single Audit reporting package, as defined and required in 2 CFR 200 for fiscal year ended June 30, 2022, could not be submitted in a timely manner.

The Single Audit for fiscal year 2022 has been subject to delays due to difficulties in the collection of financial data, which represented significant amounts in the financial statements. The complexities surrounding the aforementioned matters have demanded additional time for thorough examination, resolution, and documentation to ensure the accuracy and completeness of our Single Audit for the year 2022.

END OF NOTES



“ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES”

INDEPENDENT AUDITOR’S 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 Yanira Raíces Vega
Secretary
Department of Education
of the Commonwealth of Puerto Rico
San Juan, Puerto Rico

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 financial statement of the **Department of Education of the Commonwealth of Puerto Rico (PRDE)**, for the fiscal year ended June 30, 2022, and the related notes to the financial statement, which collectively comprise the **PRDE’s** financial statement, and have issued our report thereon dated June 11, 2024. Our report includes a paragraph indicating that the financial statement only purports to present the cash receipts and cash disbursements attributable to the **PRDE**.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the **PRDE’s** internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the **PRDE’s** internal control. Accordingly, we do not express an opinion on the effectiveness of the **PRDE’s** internal control.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the **PRDE’s** financial statement will not be prevented or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001 and 2022-002 that we consider to be material weaknesses.

INDEPENDENT AUDITOR'S 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 Yanira Raíces Vega, Secretary

Department of Education

of the Commonwealth of Puerto Rico

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **PRDE's** financial statement is free of 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 financial statement. 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2022-002.

PRDE's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the **PRDE's** response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The **PRDE's** response was not subject to the other auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on the response.

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 the **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 the **PRDE's** internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CPA DIAZ-MARTINEZ, CSP

Certified Public Accountants & Consultants

License Number 12, expires on December 1, 2025

Caguas, Puerto Rico

June 11, 2024

Stamp No. E569566 of the Puerto Rico Society of Certified
Public Accountants were affixed to the original report.



“ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES”

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Honorable Yanira Raíces Vega
Secretary
Department of Education
of the Commonwealth of Puerto Rico
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

Qualified Opinions

We have audited **Department of Education of the Commonwealth of Puerto Rico (PRDE)**’s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the **PRDE**’s major Federal programs for the fiscal year ended June 30, 2022. The **PRDE**’s major Federal programs are identified in the Summary of Auditors’ Result Section of the accompanying Schedule of Findings and Questioned Costs.

Qualified Opinions (See Table on Matters Giving Rise to Qualified Opinions Section)

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinions” section of our report, the **PRDE** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major Federal programs described in the following Table and paragraph for the fiscal year ended June 30, 2022.

Basis for Qualified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Honorable Yanira Raíces Vega, Secretary

Department of Education

of the Commonwealth of Puerto Rico

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We are required to be independent of the PRDE and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified opinions on compliance for each major Federal program. Our audit does not provide a legal determination of PRDE’s compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinions (See the following Table)

As described in Findings Reference Nos. 2022-003 through 2022-014, in the accompanying Schedule of Findings and Questioned Costs, the PRDE did not comply with requirements regarding the following:

Finding Reference Number	Assistance Listing Number	Program (or Cluster) Name	Compliance Requirement	Questioned Costs
2022-003	97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Reporting	*
2022-004	21.019	Coronavirus Relief Fund	Activities Allowed or Unallowed, Allowable Costs/Cost Principles	*
2022-005	84.027, 84.173	Special Education Cluster (IDEA)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles	*
2022-006	84.425F	COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Institutional Portion	Activities Allowed or Unallowed, Allowable Costs/Cost Principles	*
	84.938T	Hurricane Education Recovery – Emergency Assistance to Institutions of Higher Education Program		
2022-007	84.425D	COVID-19 Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund	Activities Allowed or Unallowed, Allowable Costs/Cost Principles	*
	84.425W	COVID-19 Education Stabilization Fund: American Rescue Plan – Elementary and Secondary School Emergency Relief Fund – Homeless Children and Youth (ARP-HCY)		

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Honorable Yanira Raíces Vega, Secretary

Department of Education

of the Commonwealth of Puerto Rico

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Finding Reference Number	Assistance Listing Number	Program (or Cluster) Name	Compliance Requirement	Questioned Costs
2022-008	84.002	Adult Education – Basic Grants to States	Allowable Costs/Cost Principles	*
	84.027	Special Education – Grants to States (IDEA, Part B)		
	84.048	Career and Technical Education – Basic Grants to States (Perkins V)		
	84.196A	Education for Homeless Children and Youth		
	84.425D	COVID-19 Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund		
	84.425R	COVID-19 Education Stabilization Fund: Coronavirus Response and Relief Supplemental Appropriations Act, 2021 – Emergency Assistance to Non-Public Schools (CRRSA EANS)		
	84.425U	COVID-19 Education Stabilization Fund: American Rescue Plan – Elementary and Secondary Schools Emergency Relief Fund (ARP ESSER)		
	84.425W	COVID-19 Education Stabilization Fund: American Rescue Plan – Elementary and Secondary School Emergency Relief Fund – Homeless Children and Youth (ARP-HCY)		
	84.938A	Hurricane Education Recovery – Immediate Aid to Restart School Operations (Restart) Program		
2022-009	10.553, 10.555, 10.559, 10.582	Child Nutrition Cluster	Allowable Costs/Cost Principles	\$359,038 **
	84.002	Adult Education – Basic Grants to States		
	84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth		
	84.027	Special Education – Grants to States (IDEA, Part B)		
	84.041	Impact Aid (Title VII of ESEA)		
	84.048	Career and Technical Education – Basic Grants to States (Perkins V)		
	84.367	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)		
	84.425D	COVID-19 Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund		

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Honorable Yanira Raíces Vega, Secretary

Department of Education of the Commonwealth of Puerto Rico

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Finding Reference Number	Assistance Listing Number	Program (or Cluster) Name	Compliance Requirement	Questioned Costs
2022-010	84.027, 84.173	Special Education Cluster (IDEA)	Equipment and Real Property Management	None
	84.425D	COVID-19 Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund		
2022-011	84.027, 84.173	Special Education Cluster (IDEA)	Period of Performance	None
2022-012	84.027, 84.173	Special Education Cluster (IDEA)	Procurement and Suspension and Debarment	None
2022-013	ALL Major Programs	All Major Programs (See Part I of Schedule of Findings and Questioned Costs)	Reporting	None
2022-014	10.555, 10.559	Child Nutrition Cluster	Reporting	None
Total Questioned Costs				\$359,038

Notes: * Undetermined // ** Other amount may be unallowed

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, status, regulations, rules, and provisions of contracts or grant agreements applicable to the **PRDE**'s Federal programs.

Auditor’s Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on **PRDE**'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the **PRDE**'s compliance with the requirements of each major Federal program as a whole.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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In performing an audit in accordance with GAAS, *Government Auditing Standards*, and Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether do to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the PRDE's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the PRDE's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the PRDE's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

Government Auditing Standards requires the auditor to perform limited procedures on the PRDE's response to the noncompliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. The PRDE's response was not subject to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The PRDE is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The PRDE's corrective action plan was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance Section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 items 2022-003 through 2022-014 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Honorable Yanira Raíces Vega, Secretary

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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.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the **PRDE's** response to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The **PRDE's** response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The **PRDE** is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The **PRDE's** corrective action plan was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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.



CPA DIAZ-MARTINEZ, CSP

Certified Public Accountants & Consultants

License Number 12, expires on December 1, 2025

Caguas, Puerto Rico

June 11, 2024

Stamp No. E569567 of the Puerto Rico Society of Certified Public Accountants were affixed to the original report.



PART III
FINDINGS AND QUESTIONED COSTS

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SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditor’s report on whether the Financial Statements Audited were prepared in accordance with special reporting framework:

- | | | | |
|-------------------------------------|--------------------|--------------------------|--------------------|
| <input checked="" type="checkbox"/> | Unmodified Opinion | <input type="checkbox"/> | Qualify Opinion |
| | Modified: | <input type="checkbox"/> | Adverse Opinion |
| | | <input type="checkbox"/> | Disclaimer Opinion |

Internal control over financial reporting:

- Significant deficiency (ies) identified?
- Material weakness (es) identified?

- | | | | |
|-------------------------------------|-----|-------------------------------------|----|
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No |
| <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/> | No |

Noncompliance material to financial statements noted?

- | | | | |
|-------------------------------------|-----|--------------------------|----|
| <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/> | No |
|-------------------------------------|-----|--------------------------|----|

Federal Awards

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

- | | | | |
|-------------------------------------|-----|--------------------------|----|
| <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/> | No |
|-------------------------------------|-----|--------------------------|----|

Type of auditor’s report issued on compliance for each Major Federal Programs:

- | | |
|-------------------------------------|--|
| <input checked="" type="checkbox"/> | Unmodified Opinion |
| | <ul style="list-style-type: none"> • State Administrative Expenses for Child Nutrition • Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA) • English Language Acquisition State Grants |
| <input checked="" type="checkbox"/> | Modified Opinion |
| | <ul style="list-style-type: none"> • Child Nutrition Cluster • Coronavirus Relief Fund • Special Education Cluster (IDEA) • Career and Technical Education – Basic Grants to States (Perkins V) • Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants) • COVID-19 Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund • COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Student Aid Portion • COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Institutional Portion • COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Minority Serving Institutions (MSIs) • COVID-19 Education Stabilization Fund: Coronavirus Response and Relief Supplemental Appropriations Act, 2021 – Emergency Assistance to Non-Public Schools (CRRSA EANS) • COVID-19 Education Stabilization Fund: American Rescue Plan – Elementary and Secondary Schools Emergency Relief Fund (ARP-ESSER) • COVID-19 Education Stabilization Fund: American Rescue Plan – Elementary Assistance to Non-Public School (ARP-EANS) • COVID-19 Education Stabilization Fund: American Rescue Plan – Elementary and Secondary Schools Emergency Relief Fund – Homeless Children and Youth (ARP-HCY) • Hurricane Education Recovery – Immediate Aid to Restart School Operations (Restart) Program • Hurricane Education Recovery – Emergency Assistance to Institutions of Higher Education Program • Disaster Grants-Public Assistance (Presidentially Declared Disasters) |
| <input type="checkbox"/> | Adverse Opinion |
| <input type="checkbox"/> | Disclaimer Opinion |

continue

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Internal control over Major Federal Programs::

			<u>Questioned Costs</u>	
• Significant deficiency (ies) identified?	<input type="checkbox"/>	Yes		<input checked="" type="checkbox"/> No
• Material weakness (es) identified?	<input checked="" type="checkbox"/>	Yes		<input type="checkbox"/> No
• Known Questioned Costs Greater than \$25,000 for a Compliance Requirement on a Major Program?	<input checked="" type="checkbox"/>	Yes	\$ 359,038	<input type="checkbox"/> None Reported
• Known Questioned Costs Greater than \$25,000 on an Nonmajor Program?	<input type="checkbox"/>	Yes	\$ -	<input checked="" type="checkbox"/> None Reported
• Known or Likely Fraud Affecting a Federal Award?	<input type="checkbox"/>	Yes	\$ -	<input checked="" type="checkbox"/> None Reported

Identification of Major Federal Programs:

Federal Assistance Listing Number	Name of Federal Program or Cluster
10.553; 10.555; 10.559;	
10.582	Child Nutrition Cluster
10.560	State Administrative Expenses for Child Nutrition
21.019	Coronavirus Relief Fund
84.010	Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)
84.027; 84.173	Special Education Cluster (IDEA)
84.048	Career and Technical Education - Basic Grants to States (Perkins V)
84.365	English Language Acquisition State Grants
84.367	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)
84.425D	COVID-19 Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund
84.425E	COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Student Aid Portion
84.425F	COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Institutional Portion
84.425L	COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Minority Serving Institutions (MSIs)
84.425R	COVID-19 Education Stabilization Fund: Coronavirus Response and Relief Supplemental Appropriations Act, 2021 – Emergency Assistance to Non-Public Schools (CRRSA EANS)
84.425U	COVID-19 Education Stabilization Fund: American Rescue Plan – Elementary and Secondary Schools Emergency Relief Fund (ARP ESSER)
84.425V	COVID-19 Education Stabilization Fund: American Rescue Plan – Emergency Assistance to Non-Public Schools (ARP EANS)
84.425W	COVID-19 Education Stabilization Fund: American Rescue Plan – Elementary and Secondary School Emergency Relief Fund – Homeless Children and Youth (ARP-HCY)
84.938A	Hurricane Education Recovery – Immediate Aid to Restart School Operations (Restart) Program
84.938T	Hurricane Education Recovery – Emergency Assistance to Institutions of Higher Education
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B Programs:

\$ 4,575,113

Auditee qualified as low-risk auditee? Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2022-001
TYPE OF FINDING	MATERIAL WEAKNESS
CRITERIA	2 CFR § 200.514 Scope of audit. (a) General. The audit must be conducted in accordance with GAGAS. The audit must cover the entire operations of the auditee, or, at the option of the auditee, such audit must include a series of audits that cover departments, agencies, and other organizational units that expended or otherwise administered Federal awards during such audit period, provided that each such audit must encompass the financial statements and Schedule of Expenditures of Federal Awards for each such department, agency, and other organizational unit, which must be considered to be a non-Federal entity. The financial statements and Schedule of Expenditures of Federal Awards must be for the same audit period. (b) Financial Statements. The auditor must determine whether the financial statements of the auditee are presented fairly in all material respects in accordance with generally accepted accounting principles.
CONDITION	<p>In the evaluation of financial information of the PRDE we found the following deficiencies:</p> <ol style="list-style-type: none"> 1. The PRDE provided us with bank statements from separate cash accounts that are managed in two offices within the PRDE. We noted the following deficiencies: <ol style="list-style-type: none"> a. The PRDE maintains a separate bank account managed by the Special Education program staff. This account is used for a transportation scholarship program for special education students. The PRDE only accounts for the transfer of state funds to the separate bank account on its SIFDE accounting system. There is no reconciliation or accounting of the actual payments made to the participants of the program. The balance of this bank account on July 1st, 2021, was \$1,344,504. During fiscal year 2021-2022, the transfers made to this bank account totaled \$1,000,000, and a total of \$1,080,142 were used in payments to scholarship beneficiaries, and bank charges of \$331 were incurred. As of June 30, 2022, the bank balance of this account was \$1,264,031. b. The other bank account is managed by the Technical and Occupational Education program staff. This account is used for the deposit of tuition costs of student's enrollment on the Technical Institutions of the PRDE. The transactions of this bank account are not recognized in the SIFDE accounting system of the PRDE. We were unable to obtain a copy of the bank statements for this account or obtain any information related to this bank account.
CONTEXT	This is a systematic deficiency. The deposits and disbursements of the bank accounts that is managed by the technology program are not accounted or subject to the internal controls of PRDE. In addition, no reconciliation related to actual disbursements for the Special Education Program is made.
CAUSE	The PRDE does not maintain adequate supervision and accountability of all funds appropriated from the Puerto Rico general fund budget as part of the year end closeout process. In relation to the bank account that manages the special education program, the scholarship program is determined by the MIPE system, and multiple payments are made to a debit card so that the parents of the participants can access the money. This information is kept in MIPE, and is not reconciled with SIFDE. In relation to the bank account that manages the technology program, since it is not in the accounting system of the PRDE, SIFDE, the use and origin of the funds could not be corroborated, and PRDE was unable to provide copies of the bank statements for the fiscal year.

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2022-001 – continuation
EFFECT	The PRDE does not include as part of its operations the expenses incurred in the two programs that maintain separate bank accounts.
IDENTIFICATION AS A REPEAT FINDING	This is a repeat finding (Finding Reference Number 2021-002).
RECOMMENDATION	PRDE should implement an accounting procedure to properly recognize and monitor the activities of the two bank accounts which are not registered in the accounting system of the PRDE .
VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION	<p>PRDE acknowledges the identified deficiencies in the accounting and monitoring of the two separate bank accounts. We are committed to implementing procedures that ensure all financial activities are properly recognized and monitored within our accounting system.</p> <p>Reconciliation and Accounting Procedures for the Special Education Bank Account:</p> <p>We will establish a procedure to ensure that all transactions related to the Special Education program's bank account are accurately recorded and reconciled in the SIFDE accounting system. This will include implementing monthly reconciliations of the bank account to ensure that all transactions are captured and accurately reflected in the accounting records.</p> <p>Recognition and Monitoring of the Technical and Occupational Education Bank Account:</p> <p>We will initiate a process to obtain complete bank statements and transaction details for the Technical and Occupational Education program's bank account. This will involve:</p> <ul style="list-style-type: none"> - Ensuring that all transactions, including tuition deposits and related activities, are recorded in the SIFDE accounting system. - Establishing a monthly reconciliation process to verify the accuracy of recorded transactions. <p>Internal Control Enhancements:</p> <p>We will develop and implement internal control procedures to ensure the proper management and oversight of all bank accounts within the PRDE. These procedures will include:</p> <ul style="list-style-type: none"> - Establishing clear lines of communication between program staff and the Finance Office to facilitate accurate and timely reporting of financial transactions. - Implementing a monitoring system to ensure that all bank accounts are included in the PRDE's financial statements and reconciliations. <p>We will ensure that all financial activities related to these bank accounts are transparently reported in the PRDE's financial statements and included in the Schedule of Expenditures of Federal Awards (SEFA). This will enhance the accuracy and completeness of our financial reporting. PRDE is dedicated to rectifying the identified deficiencies and enhancing our accounting procedures to ensure accurate recognition and monitoring of all financial activities.</p>
IMPLEMENTATION DATE	Current Fiscal Year

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER **2022-001 – continuation**

RESPONSIBLE PERSON Judith Parilla
 Accounts Receivable Supervisor

 Evelyn Rodríguez Cardé
 Finance Director

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2022-002 (See Finding Reference Number 2022-003)
FEDERAL PROGRAM	(ALN – 97.036) DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTIALLY DECLARED DISASTERS) PASS-THROUGH: PUERTO RICO CENTRAL OFFICE FOR RECOVERY, RECONSTRUCTION AND RESILIENCY (COR3) U.S. DEPARTMENT OF HOMELAND SECURITY
AWARD NUMBERS	PA-02-PR-4339-PW-00619, PA-02-PR-4339-PW-00621, PA-02-PR-4339-PW-00623, PA-02-PR-4473-PW-0043 (Federal Award Years: 2017 through 2022)
COMPLIANCE REQUIREMENTS	ACTIVITIES ALLOWED OR UNALLOWED // ALLOWABLE COSTS/COSTS PRINCIPLES // REPORTING – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
TYPE OF FINDING	MATERIAL WEAKNESS AND REPORTABLE INSTANCE OF NONCOMPLIANCE
CRITERIA	<p>Uniform Guidance at 2 CFR §200.302 Financial Management Section (a) establish the administrative requirements for the program, which include the requirement that state and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.</p> <p>§ 200.302 Financial Management (b) (1) states that the financial management system of each non-Federal entity must provide for Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the Assistance Listings title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.</p> <p>Also, Section § 200.303 Internal controls requires that non-Federal entities must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.</p> <p>2 CFR §200.510 Financial Statements, (b) states that the auditee must prepare a Schedule of Expenditures of Federal Awards for the period covered by the auditee's financial statements which must include the total Federal awards expended. At a minimum, the schedule must: (1) list individual Federal Programs by Federal agency, (2) for Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included, (3) provide total Federal awards expended for each individual Federal program and the Assistance Listing number or other identifying number, (4) Include the total amount provided to subrecipients from each Federal program, (5) for loan or loan guarantee programs identify in the notes to the schedule the balances outstanding at the end of the audit period. Also, § 200.302 Financial Management (b) (1) states that the financial management system of each non-Federal entity must provide for Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the Assistance Listings title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.</p>

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER 2022-002 (See Finding Reference Number 2022-003) – continuation

STATEMENT OF CONDITION The PRDE did not maintain on its' accounting system (SIFDE) record of the program revenues and expenditures during the fiscal year under the correct accounting codes required for Federal programs in accordance with the prescribed internal control requirements. Federal program accounting codes must include a code identifying the Assistance Listing Number of the Federal program. During the fiscal year under audit, the program revenues received did not include the required accounting code and there was no record of the related program expenditures. Significant adjustments were needed to the financial statement and the Schedule of Expenditures of Federal Awards (SEFA) to include the expenditures incurred during the fiscal year.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2022-003 (See Finding Reference Number 2022-002)
FEDERAL PROGRAM	(ALN – 97.036) DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTIALLY DECLARED DISASTERS) PASS-THROUGH: PUERTO RICO CENTRAL OFFICE FOR RECOVERY, RECONSTRUCTION AND RESILIENCY (COR3) U.S. DEPARTMENT OF HOMELAND SECURITY
AWARD NUMBER	PA-02-PR-4339-PW-00619, PA-02-PR-4339-PW-00621, PA-02-PR-4339-PW-00623, PA-02-PR-4473-PW-0043 (Federal Award Years: 2017 through 2022)
COMPLIANCE REQUIREMENTS	ACTIVITIES ALLOWED OR UNALLOWED // ALLOWABLE COSTS/COSTS PRINCIPLES // REPORTING – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	<p>Uniform Guidance at 2 CFR §200.302 Financial Management Section (a) establish the administrative requirements for the program, which include the requirement that state and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.</p> <p>§ 200.302 Financial Management (b) (1) states that the financial management system of each non-Federal entity must provide for Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the Assistance Listings title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.</p> <p>Also, Section § 200.303 Internal controls requires that non-Federal entities must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.</p> <p>2 CFR §200.510 Financial Statements, (b) states that the auditee must prepare a Schedule of Expenditures of Federal Awards for the period covered by the auditee's financial statements which must include the total Federal awards expended. At a minimum, the schedule must: (1) list individual Federal Programs by Federal agency, (2) for Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included, (3) provide total Federal awards expended for each individual Federal program and the Assistance Listing number or other identifying number, (4) Include the total amount provided to subrecipients from each Federal program, (5) for loan or loan guarantee programs identify in the notes to the schedule the balances outstanding at the end of the audit period. Also, § 200.302 Financial Management (b) (1) states that the financial management system of each non-Federal entity must provide for Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the Assistance Listings title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.</p>

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2022-003 (See Finding Reference Number 2022-002) – continuation
STATEMENT OF CONDITION	The PRDE did not maintain on its' accounting system (SIFDE) record of the program revenues and expenditures during the fiscal year under the correct accounting codes required for Federal programs in accordance with the prescribed internal control requirements. Federal program accounting codes must include a code identifying the Assistance Listing Number of the Federal program. During the fiscal year under audit, the program revenues received did not include the required accounting code and there was no record of the related program expenditures. Significant adjustments were needed to the financial statement and the Schedule of Expenditures of Federal Awards (SEFA) to include the expenditures incurred during the fiscal year.
QUESTIONED COSTS	Undetermined.
PERSPECTIVE INFORMATION	This is a systemic deficiency. Unlike other Federal programs administered by the PRDE, the program has not named any fiscal or financial staff to provide support to the program administrators and Finance Office for the accounting of program financial activities. Also, no coordination has been established within the Finance Office and the Infrastructure Office (responsible for the program management) to provide reasonable assurance that program activities and fiscal transactions are being adequately recorded for financial reporting and program compliance.
STATEMENT OF CAUSE	The PRDE staff has not established adequate internal controls procedures for the accounting of the program financial transactions (revenues and expenditures).
POSSIBLE ASSERTED EFFECT	The PRDE staff responsible for the financial statement and SEFA preparation incurred significant delays providing adequate information for audit purposes. Also, lack of adequate accounting records and related supporting documents could result in unallowable costs that must be reimbursed to the Federal agency from state funds.
IDENTIFICATION OF REPEAT FINDING	This is not a repeat finding.
RECOMMENDATIONS	The PRDE must revised the accounting record information and recording of transactions related to the program to provide reasonable assurance that the accounting record provides an adequate basis for the SEFA and financial statement preparation. Formal internal controls procedures must be established to regulate the flow of information within the Infrastructure Office and the Finance Office. Also, a fiscal/financial support staff should be identified to provide support on the program accounting and reporting requirements.
VIEWS OF RESPONSIBLE OFFICIALS	<p>PRDE acknowledges the identified deficiencies in the maintenance and coding of program revenues and expenditures within our accounting system (SIFDE) as per federal program requirements. We recognize the importance of accurate record-keeping and the critical role it plays in ensuring compliance with federal regulations and the preparation of accurate financial statements and SEFA.</p> <p>PRDE will implement the following action plan:</p> <p>Revision of Accounting Records: We will undertake a comprehensive review and revision of our accounting records to ensure that all transactions related to federal programs are accurately coded with the correct Assistance Listing number. This will involve revising past records as necessary to reflect the correct accounting codes and ensure all expenditures are properly documented.</p>

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2022-003 (See Finding Reference Number 2022-002) – continuation

Enhancement of Internal Control Procedures:

We will develop and implement formal internal control procedures to regulate the flow of information between the Infrastructure Office and the Finance Office. These procedures will include:

- Establishing a standardized process for recording and verifying program revenues and expenditures.
- Implementing regular reconciliation checks to ensure all transactions are accurately recorded and coded.

Identification of Fiscal/Financial Support Staff:

We will identify and designate dedicated fiscal/financial support staff responsible for program accounting and reporting. These individuals will receive specialized training in federal program accounting requirements and will be tasked with:

- Providing ongoing support to ensure accurate recording and reporting of federal program transactions.
- Assisting in the preparation of financial statements and SEFA.
- Liaising between the Infrastructure Office and the Finance Office to ensure consistent application of internal control procedures.

PRDE is committed to rectifying the issues identified and enhancing our financial management practices to ensure full compliance with federal requirements. By revising our accounting records, strengthening internal controls, and providing dedicated support and training, we will ensure that our accounting system (SIFDE) maintains accurate and reliable records of program revenues and expenditures, thereby supporting the preparation of accurate financial statements and SEFA.

IMPLEMENTATION DATE End of Fiscal Year 2024

RESPONSIBLE PERSON Eng. José M. Guadalupe
Sub-Director Office of Infrastructure and Reconstruction

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2022-004
FEDERAL PROGRAM	(ALN – 21.019) CORONAVIRUS RELIEF FUND PASS-THROUGH: PUERTO RICO OFFICE OF MANAGEMENT AND BUDGET U.S. TREASURY DEPARTMENT
AWARD NUMBER	Resolution No. 2021-003
COMPLIANCE REQUIREMENTS	ACTIVITIES ALLOWED OR UNALLOWED // ALLOWABLE COSTS/COSTS PRINCIPLES
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	<p>2 CFR Section 200.303 (a) establishes that the non-Federal entity must establish and maintain effective internal control over the Federal Award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.</p> <p>In addition, as set forth in Section 601(d) of the Social Security Act, payments must be used to cover costs that are:</p> <ol style="list-style-type: none"> 1. Necessary expenditures incurred due to the public health emergency with respect to COVID-19. 2. Not accounted for in the government’s most recently approved budget as of March 27, 2020. 3. Incurred during the period that begins on March 1, 2020; and ends on December 31, 2021.
STATEMENT OF CONDITION	<p>During our audit procedures regarding activities allowed or unallowed of the program, we selected a sample of vouchers and when evaluating them, we noted the following situation:</p> <ol style="list-style-type: none"> 1. In three (3) of the vouchers evaluated, the total amount of goods received does not agree with the lead documents included in the supporting documents in the SIFDE system; in addition, the 3-way-match process in the SIFDE system was not performed. 2. In one (1) of the vouchers, the invoice amount is greater than the voucher amount, and an explanation for this difference is not documented. 3. In one (1) of the vouchers, although the payment amount was correct, the invoice included in the supporting documents of the SIFDE system was not for the same amount and number. Basically, the payment was processed without verifying the supporting documents included for the payment in the SIFDE system.
QUESTIONED COSTS	Undetermined.
PERSPECTIVE INFORMATION	The deficiency is caused by a lack of adequate internal controls on the part of the PRDE to established procedures to verify the supporting documents included in the SIFDE system, so that documents agree with the amount of goods received, and the voucher amount. In addition, a receiving report is not created for all applicable disbursements, so the 3-way-match system procedure is not performed adequately.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2022-004 – continuation
STATEMENT OF CAUSE	The PRDE did not establish adequate internal controls to verify that the information included as supporting documents for the payment in the SIFDE system is correct and consistent with the goods that were received and invoiced. When the payment is processed there is not an adequate procedure to verify that the invoice and voucher amount agrees that the total amount of goods received agree with the total amount of goods invoiced, and that the supporting documentation agree with the voucher amount. In addition, for condition number one (1) the established procedure in the SIFDE system for the 3-way-match was not performed and receiving reports were not created in the system.
POSSIBLE ASSERTED EFFECT	The PRDE may be paying for goods that were not received, which could cause them to have to return funds to the Federal government and that the use of the allocated Federal funds is not being maximized.
IDENTIFICATION OF REPEAT FINDING	This is a repeat finding (Finding Reference Number 2021-003).
RECOMMENDATIONS	We recommend that the PRDE establish adequate and effective internal controls to verify and agree the supporting documents included in the SIFDE system with the total amount of goods received and the voucher amounts. In addition, we recommend that the receiving reports are created in the SIFDE system so the 3-way-match procedure can be performed adequately.
VIEWS OF RESPONSIBLE OFFICIALS	<p>PRDE is committed to comply with all federal and state regulations applicable to programs within the Agency. Consequently, the Agency has taken steps to strengthen internal controls, develop guidelines and procedures for completing reports, and other tasks related to meeting requirements. As we recognize that this is an ongoing process, the program will continue to enforce policies and procedures by training all necessary staff on timeliness of procedures.</p> <p>The PRDE acknowledges the identified deficiencies and is committed to addressing and rectifying the issues raised in the audit finding. In response to the concerns outlined, we would like to highlight the existence and role of our Third-Party Fiduciary Agent (TPFA) as a critical component of our internal control framework. The TPFA is an integral part of the PRDE's internal control structure and assumes responsibility for ensuring compliance with federal programs and internal controls. The TPFA is tasked with overseeing financial transactions, verifying supporting documentation, and ensuring that payments align with goods received and invoiced.</p> <p>In light of the audit finding, the PRDE will enhance its internal control to establish robust procedures for verifying information included as supporting documents in the SIFDE system. Also, PRDE will work closely with the TPFA to reinforce their oversight role in verifying compliance with federal programs and internal controls. This collaboration aims to ensure that the TPFA's responsibilities align seamlessly with the PRDE's internal control objectives.</p> <p>PRDE are committed to promptly addressing these concerns and will diligently implement corrective measures to strengthen our internal controls and enhance the overall effectiveness of our financial management processes.</p>
IMPLEMENTATION DATE	Current Fiscal Year
RESPONSIBLE PERSON	Evelyn Rodríguez Cardé Finance Director

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2022-005
FEDERAL PROGRAMS	(ALN – 84.027) SPECIAL EDUCATION – GRANTS TO STATES (IDEA, PART B) – SPECIAL EDUCATION CLUSTER (IDEA) (ALN – 84.173) SPECIAL EDUCATION – PRESCHOOL GRANTS (IDEA PRESCHOOL) – SPECIAL EDUCATION CLUSTER (IDEA) U.S. DEPARTMENT OF EDUCATION
AWARD NUMBERS	H027A190003 (07/01/2019 – 09/30/2020); H027A200003 (07/01/2020 – 09/30/2021); H173A190003 (07/01/2019 – 09/30/2020); H173A200003 (07/01/2020 – 09/30/2021)
COMPLIANCE REQUIREMENTS	ACTIVITIES ALLOWED OR UNALLOWED // ALLOWABLE COSTS/COSTS PRINCIPLES
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	2 CFR Section 200.302 (a) establishes that each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award. In addition, 2 CFR Section 200.403 (b) establishes that except where otherwise authorized by statute, costs must be adequately documented in order to be allowable under Federal awards.
STATEMENT OF CONDITION	As part of our procedures over internal controls and compliance for the allowable activities' requirement, we selected a sample of eighty-one (81) disbursements to suppliers made during the fiscal year under audit. We noted the following deficiencies: <ol style="list-style-type: none"> 1. In a disbursement related to educational services, according to the Excel master sheet, the payment had to be adjusted in the amount of \$24,262.80. PRDE personnel verified the documentation, and in an email, the technician indicated that the deficiency was corrected, and that the adjustment was not appropriate, but did not update the information in SIFDE. The staff who reviewed and authorized the payment did not request information about the adjustment and did not adjust the payment according to the documentation in the system. 2. In a disbursement related to professional services for IDEA, the payment was made for \$226,050, when the payment should have been for \$225,250. 3. In a disbursement related to an employee workshop, the KRONOS employee number was not included in all attendees. There are no signatures of attendance, the PRDE indicated that since the workshop was online, there are no signatures or other evidence of attendance other than a "tick mark" on a document. 4. In a disbursement related to educational services for the month of August 2021, we found that several students had the authorization letter for the purchase of services with later dates, from September to December 2021. In a communication dated November 23, 2023, the PRDE indicates that the participants who enrolled were previously contemplated in the contract, but no evidence was provided to us in this regard.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2022-005 – continuation

5. In a disbursement related to services to special education students, in the invoice and documents related to the disbursement, the billed students do not present their SIE number, and in other instances they do not indicate the student to whom the service is provided.
6. In a disbursement related to purchases of ninety-eight (98) refrigerators, we noted that seven (7) lead documents were found without the seal of the school that received them, and in another three (3) lead documents there is no name and signature of the person who received the refrigerators.
7. In a disbursement related to evaluation and intervention services, the invoice is sent without itemizing the name of the student, but rather the name of the therapist. There is no way to prove that the service was provided to students who are part of the special education program.
8. In a disbursement related to assessment and intervention services, therapists' time sheets include the students to whom the service was provided. We searched for five (5) students from the invoices in the Excel master sheets and were unable to identify any in the Excel master sheets.
9. In two (2) disbursements related to workshops and other professional services, no evidence of workshop attendance sheets was found.
10. In twenty-five (25) vouchers evaluated, it was found that the invoiced expenses corresponded to both cluster programs (84.027 and 84.173), and the invoices established this. However, the expenses in the system were recognized in grant 84.027, not according to the participants attended and invoiced, according to their age.

In addition, we verified seven (7) journal entries made for the program. In one journal entry made to reclassify expenditures incurred in one budget category to another, we noted that the detail of invoices included in the documentation did not agree with the amount of the detail.

QUESTIONED COSTS Undetermined.

PERSPECTIVE INFORMATION This deficiency is a systemic problem that is related to lack of proper training and controls that require standard evaluation, approval, and reporting of expenditures incurred.

STATEMENT OF CAUSE According to interviews carried out and documentation evaluated, some goods and services are received in the different Regional Offices (ORE), and each one carries out similar, but not standard, processes when certifying as received or pre-intervening invoices.

Regarding the distribution of expenses, according to interviews and evaluated documentation, it was found that at the time of binding a contract, an analysis of the assigned participants is not made, in order to be able to make a distribution between the two programs of the cluster according to the age of the participant. In addition, according to interviews, although the contract budget is validated, they only limit themselves to verifying the amount available in general and there is no distribution of the expense according to the service provider's invoice.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2022-005 – continuation
POSSIBLE ASSERTED EFFECT	The PRDE is reporting expenses within the cluster that do not necessarily reflect the actual expenses incurred by each program in the cluster, this deficiency requires that when the period of availability of funds is ending, some adjustments be made to reclassify expenses, up to the amount of the award. In addition, the PRDE may have incurred payments for which the service or goods were not provided as contracted.
IDENTIFICATION OF REPEAT FINDING	This is a repeat finding (Finding Reference Number 2021-004).
RECOMMENDATIONS	We recommend that the PRDE establish standardized written guidelines and train the staff of the Regions to carry out and document the reviews and approvals of services, and ascertain that this information is uploaded in the accounting system of SIFDE. In addition, the personnel must be instructed to account for the budget and expense of therapy and related services, according to the enrollment of students who will attend, in accordance with the program that applies within the cluster.
VIEWS OF RESPONSIBLE OFFICIALS	<p>Management Response to Condition #1</p> <p>Management agrees with the finding. Upon review of the supporting documentation, the system (SIFDE) reflects a payment for \$124,500. The total amount of the invoice was \$151,600 and it was adjusted for the amount of \$27,100. However, there is no evidence attached to the system of the adjustments detail, including the reason and the amount adjusted per student.</p> <p>The PRDE understand the importance of addressing this matter promptly and effectively. As part of the corrective measures, in order to prevent future non-compliance issues, the PRDE will provide training to the impacted employees to reinforce the documentation requirements as well as the importance to include in the system all of the supporting documents evaluated as part of the intervention process, including but not limited to any additional documentation requested to the provider.</p> <p>Also, the Program will continue to perform monitoring procedures to confirm that the information is timely available, accurate and complete to ensure compliance with applicable laws and regulations.</p> <p>Management Response to Condition #2</p> <p>Management agrees with this finding. Upon review of the documentation in the system, this invoice corresponds to professional services provided in June 2021 but the provider also included in the invoice 5 hours of services provided in May 2021. Due to an involuntary error, these hours were not billed in May. However, there is no evidence attached to the system of the detail of the services incurred in May to support this explanation.</p> <p>As part of the corrective measures, the Program will provide training to the impacted employees to reinforce the intervention process, including the documentation required to approve disbursement and document retention policies. Also, will be reevaluating the approval processes together with the Third-Party Fiduciary in order to prevent these incorrect disbursements to occur in the future. In addition, the PRDE will provide training to the Finance Department personnel to enforce the evaluation and approval of expenditures process.</p>

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2022-005 – continuation

Management Response to Condition #3

Management agrees with this finding. PRDE will provide training to the impacted employees to reinforce the policies and procedures in order to prevent future non-compliance issues. Also, to mitigate this matter, the Program will ensure that the vendors provide a certified list of participants for all trainings or workshops (physical or remote) as evidence of attendance for a payment to be issued. Orientation will also be provided to the vendors to reinforce the documentation requirements.

Management Response to Condition #4

Management agrees with this finding. PRDE will perform the following corrective actions:

1. As established in the current guidance “Guía de Procedimiento para presentación y validación de factura”, page 9, the Contract must include, as an attachment, the list of students approved to receive education services.
2. Authorization letters must be revised to include the effective date when the educational services started to be provided to the student. This evidence must be attached to the system.
3. The PRDE will provide training to the impacted employees to reinforce the documentation requirements and retention policies in order to prevent future non-compliance with applicable laws and regulations as well as internal policies and procedures.

Management Response to Condition #5

Management agrees with the finding. Upon review of the supporting documentation, it was identified that the contractor has two versions of their attendance sheet template and one of them does not provide a space to include the name and SIE of the student.

The Program maintains a guide for presentation and validation of related and educational services. The last revision of the guide was on September 20, 2021. As a corrective measure, the PRDE will revise the established written guidelines to clarify the requirements of the documentation that must be submitted and evaluated as part of the invoice intervention process.

Also, the Program will develop and implement a standardized attendance sheet for public schools and service centers. This will ensure uniformity of the process for audit/monitoring purposes to ensure compliance with the applicable regulatory guidance. Also, the PRDE will provide training to the employees of the Regional Offices to prevent future non-compliance issues.

Management Response to Condition #6

Management partially agrees with the finding. Upon review of the supporting documentation, it was noted that all of the lead documents have the signature of the person who received the equipment. However, we confirm that there are seven (7) without the seal of the school. As a corrective measure, the Program will provide training to the employees to prevent future non-compliance issues.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2022-005 – continuation

Management Response to Condition #7

Management does not agree with this finding. Upon review of the supporting documentation, it was noted that the invoice for the evaluation and intervention services include the Excel Master (Excel Master de Servicios) which incorporates the name of each student who receive services during the period evaluated. It is confirmed that the amounts in the Excel Master properly agrees with the invoice in terms of invoice amount by age group and type of school. Furthermore, in order to prevent misunderstanding and guarantee the uniformity and transparency of the process, the Program will be developing and implementing a standardized sheet to record the attendance of the specialists who provide services in public schools and special education service centers. Prior to submitting the invoice, the contractor must verify that the time sheet of the specialist who offers services agrees with the data reported in the Excel Master and the schedule of services to be offered to the students they served.

Management Response to Condition #8

Management agrees with this finding. PRDE will enforce its policies and procedures. To mitigate this finding, PRDE will request the vendor to include in the certified list only the student's participant of the assessment and intervention services for each month of service by school. Also, the "Excel Master de Servicios" must agree with the lists of students for the payment to be issued. In addition, the PRDE will provide training to the employees to reinforce the documentation requirements and retention policies in order to prevent future non-compliance with applicable laws and regulations as well as internal policies and procedures.

Management Response to Condition #9

Management agrees with the finding. Upon review of the supporting documentation, it was identified that:

Voucher 01041087, there is an attachment to the invoice that includes the Zoom Report as evidence of the workshop held on May 7, 2021 including the Topic, Meeting ID, User Name, Start and End Time, Duration and amount participants. However, there is no evidence of an attendance sheet including the name and signature of the participants.

With regards to voucher 01075478, there is an attachment to the invoice that includes the Zoom Report as evidence of the workshop held on January 19, 2022, however, the documentation was not clear. The duration of the meeting in the report does not agree with the hours in the invoice.

The PRDE understand the importance of addressing this matter promptly and effectively. As part of the corrective measures, the PRDE will provide training to reinforce the documentation requirements and documents retention policy to ensure that the information is timely available, accurate and complete in order to comply with applicable laws and regulations as well as to prevent future non-compliance issues.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2022-005 – continuation

Management Response to Condition #10

IDEA Part B, Section 611 funds can be used for students ages 3 to 21. According to the description that OSEP provides for the §611: Special Education – Grants to States program, indicates that “The Grants to States program provides formula grants to assist the 50 states, the District of Columbia, Puerto Rico, the Department of the Interior, Outlying Areas, and the Freely Associated States in meeting the excess costs of providing special education and related services to children with disabilities. In order to be eligible for funding, states must serve all children with disabilities between the ages of 3 through 21, except that they are not required to serve children aged 3 through 5 or 18 through 21 years if services are inconsistent with State law or practice or the order of any court. A state that does not provide a free appropriate public education (FAPE) to children with disabilities aged 3 through 5 cannot receive base payment funds attributable to this age group or any funds under the Preschool Grants program.” Under 34 CFR § 300.202 (a), the LEA must use funds from IDEA, Part B “in accordance with the applicable provisions of this part ... to pay the excess costs of providing special education and related services to children with disabilities.”

IMPLEMENTATION DATE Current Fiscal Year

RESPONSIBLE PERSON Enid Díaz Nieves
Executive Director Associate Secretary of Special Education

Noelia Cortés
Associate Secretary of Special Education

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2022-006
FEDERAL PROGRAMS	(ALN – 84.425F) COVID-19 EDUCATION STABILIZATION FUND – HIGHER EDUCATION EMERGENCY RELIEF FUND (HEERF) - INSTITUTIONAL PORTION (ALN – 84.938T) HURRICANE EDUCATION RECOVERY – EMERGENCY ASSISTANCE TO INSTITUTIONS OF HIGHER EDUCATION PROGRAM U.S. DEPARTMENT OF EDUCATION
AWARD NUMBER	P425F202952; P938T180043 (AWARD YEARS 2018-2022)
COMPLIANCE REQUIREMENTS	ACTIVITIES ALLOWED OR UNALLOWED // ALLOWABLE COSTS/COSTS PRINCIPLES
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	<p>2 CFR Section 200.302 (a) establishes that the costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the non-Federal entity, are allowable, subject to paragraphs (b) and (c) of this Section when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal Government.</p> <p>(b) In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant: (8) adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions).</p> <p>(c) In addition to the factors in paragraph (b) of this Section, to be allowable, retainer fees must be supported by evidence of bona fide services available or rendered</p>
STATEMENT OF CONDITION	<p>As part of our audit procedures over internal controls and compliance for the allowable activities' requirement, we selected a sample of forty (40) disbursements for Emergency Assistance to Institutions of Higher Education (84.938T) and four (4) disbursement for HEERF (84.425F) to suppliers made during fiscal year under audit. We found (1) instance of disbursement with the same supplier in each of the programs above-mentioned, for which the purchase order amount and the service provided were not contemplated or included in the contract. The contract describes the type of service to be performed and establishes the regions and the institutions where the services will be performed. When we evaluated the invoice, we found that the service was provided to a region and institution not included in the contract. The Contract and Purchase Order established that the services to be provided would be in the institutions of Guayama and Manati. However, the invoice paid in the program 84.938T indicated that the services provided were in San Juan, and the invoices paid in the program 84.425F indicated that the services provided were in Bayamón. In addition, the purchase order amount exceeded the contract amount. The total purchase order amount was \$780,780, the contract total amount was \$591,010, with a difference \$189,770. No additional evidence was provided to justify the services performed or to justify the purchase order amount above the contract.</p>
QUESTIONED COSTS	Undetermined.
PERSPECTIVE INFORMATION	This deficiency is a systemic problem.
STATEMENT OF CAUSE	The PRDE did not review the invoices in relation to the contract terms (region / institution) and the purchase order amount, prior to the approval and issuance of a payment to the vendor.
POSSIBLE ASSERTED EFFECT	The PRDE incurred in payments to suppliers for services rendered not included in service contract and purchase order.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2022-006 – continuation
IDENTIFICATION OF REPEAT FINDING	Not previously reported.
RECOMMENDATIONS	We recommend to the PRDE to review the invoices submitted by the supplier against the contract terms to validate that the services provided are in compliance with the contract requirements and contract amendments, if any, before the issuance of any payments.
VIEWS OF RESPONSIBLE OFFICIALS	<p>On October 30, 2019, the Formal Auction Opening, SF (OC) 2020-001 “001 “SUBASTA PARA EL REEMPLAZO DE LAS UNIDADES DE AIRE DEL INSTITUTO TECNOLÓGICO DE PUERTO RICO, RECINTO DE GUAYAMA Y MANATÍ, ADSCRITO AL ÁREA DE EDUCACION TÉCNICA DE LA SECRETARÍA AUXILIAR DE EDUCACIÓN OCUPACIONAL Y TÉCNICA” was held. After the required processes, the auction was awarded to Clean Air Contractors, Corp. On September 14, 2020, Contract 2021-AF0024 was granted between the Puerto Rico Department of Education (Department) and Clean Air Contractors, Corp.</p> <p>Regulation 7040, the Regulation for the Acquisition, Sales, and Auctions of Goods, Works, and Non-Personal Services, amended 7545-7934, dated October 5, 2005, which was applicable at the time of the auction, permits the use of available contracts within any department dependency for the acquisition of goods, works, and services under the term “purchase against contracts.” The applicable regulations for this case are detailed below.</p> <p>Section 5.11 of Regulation 7040 states:</p> <p style="padding-left: 40px;">Sec. 5.11 – Purchases against contract Purchase made directly from a supplier with whom a contract has been formalized, following the award of a formal or informal auction.</p> <p>Section 13.3.1 of Regulation 7040 states:</p> <p style="padding-left: 40px;">Sec. 13.3.1 – Purchases against contracts The Buyer may issue purchase orders against contracts established by the Department itself in any of its dependencies or against contracts available in other government agencies.</p> <p>Section 13.3.1.1 of Regulation 7040 states:</p> <p style="padding-left: 40px;">Sec. 13.3.1.1 – Contracts available in any Department dependency The various acquiring units of the Department, whether school groups, school districts, educational regions, or central office, may group their needs for goods, works, and non-personal services to be acquired recurrently throughout the year. For the acquisition of such goods, works, or services, annual or semi-annual contracts will be formalized with one or more suppliers. Suppliers with whom contracts are formalized must have been selected through formal auctions. The contracts may establish estimated or approximate quantities of products or services, or indeterminate quantities. This type of contract will stipulate that the Acquiring Unit or the Department may increase or decrease the established quantity of a product or service during the contractual period, according to prevailing circumstances or available funds. If provided for in the contract terms, direct purchase orders may be issued against the same, both by Buyers of the acquiring unit(s) that generated it, and by Buyers from any other Acquiring Unit of the Agency.</p>

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2022-006 – continuation

Contract 2021-AF0024 stipulates, in paragraph FIFTH, page 3, that the quantity of the product can be increased or decreased:

FIFTH: PURCHASE ORDERS: It is agreed between the parties that the quantities established in the auction specifications Number S.F.

(OC) 2020-001 “Replacement of Air Units at the Puerto Rico Institute of Technology, Guayama and Manatí Campuses, Under the Technical Education Area of the Assistant Secretary of Occupational and Technical Education” may increase or decrease and will be issued based on prevailing needs or available funds.

Contract 2021-AF0024 also stipulates, in paragraph SIXTH, page 3, item 3, that payment may be issued from other account figures:

SIXTH: RESOURCES TO PAY FOR THE GOODS TO BE ACQUIRED: The goods to be acquired and the services to be provided under this contract will be paid from the Account Figures:

...

and/or from other account figures with available funds for the payment of goods and services.

In this case, and as required by Regulation 7040, there exists:

- (1) a formal auction; SF (OC) 2020-001;
- (2) a valid contract, Contract 2021-AF0024;
- (3) a stipulation in the contract that allows the quantities established in the auction specifications to be increased or decreased.

Furthermore, the state regulation defines direct purchase as follows:

Section 5.7 – Direct purchase

Purchase of a good, work, or non-personal service that, due to prevailing special circumstances, does not require the holding of a formal or informal auction.

In this case under our consideration, the exceptional circumstance that the Technical Education Program and the DEPR were experiencing was the resumption of operations after Hurricanes Irma and Maria; and subsequently the COVID-19 pandemic. This information is supported and documented in the work plans submitted by the institutes attached to the program for authorization to use emergency funds under the Bipartisan Budget Act of 2018 and under the federal emergency funds granted by the USDE to the DEPR due to the COVID-19 pandemic. The corresponding plan evidence is attached.

For all the above reasons, the approval and issuance of payment to the supplier complied with all the requirements of the Regulation and applicable processes.

On the other hand, this finding is related to a procurement transaction carried out under the past Regulation 7040 of 2005, as amended, which is no longer in effect. In November 2020, a new Procurement Regulation applicable to PRDE was issued. Regulation 9230 of 2020 is currently in place and it requires PRDE to procure goods and services under the by laws and supervision of the local General Administration Services (ASG) where the majority of the procurement processes take place, and once contracts are finalized, they become available for the benefit of all

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2022-006 – continuation

governmental entities covered by the said regulation. ASG staff are experts on governmental acquisitions, bidding processes and other related matters; and they have the ability to plan and execute open competitive processes in advance, to be ready for when PRDE is in need. Therefore, procurement exceptions should be reduced or even eliminated.

Further, ASG has required PRDE's procurement staff to move to their Headquarters and to be part of their staff. The implementation of this change could mean that PRDE would no longer be able to procure goods and or non-professional services within the Agency. This opportunity requires PRDE and ASG to work hand-in-hand to build a stronger team paired with additional resources to improve procedures and avoid noncompliance in the procurement area.

Auditor Comment on Management Response for Finding No. 2022-006

As mentioned above Section 13.3 of Regulation 7040 states that when extraordinary or exceptional circumstances exists the buyer can proceed to acquire goods, works, and non-personal services through a direct purchase; however, no documentation was found within the disbursement supporting documents that validate the extraordinary or exceptional circumstances to apply the Regulation 7040 Section 13.3. In addition, Section 13.3.1.3 of Regulation 7040: General provision applicable to direct purchase orders to be issued against contracts, states that when direct purchase orders are issued against an established contract, both the buyer and the supplier will adhere to the prices, specifications, conditions and terms established in said contract. In the situation presented in the finding the prices, specifications, conditions and terms differ from those specified in the original contract since the work was carried out at centers/institutions other than those that had been requested in the original auction and included in the contract, and the costs were not the same as those included in the original contract.

IMPLEMENTATION DATE Implemented

RESPONSIBLE PERSON Edgar Delgado
Program Coordinator

María de los Ángeles Lizardi
Auxiliary Secretary for Federal Affairs

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2022-007
FEDERAL PROGRAMS	(ALN – 84.425D) COVID-19 EDUCATION STABILIZATION FUND – ELEMENTARY AND SECONDARY SCHOOL EMERGENCY RELIEF FUND (ALN – 84.425W) COVID-19 EDUCATION STABILIZATION FUND – AMERICAN RESCUE PLAN – ELEMENTARY AND SECONDARY SCHOOL EMERGENCY RELIEF FUND – HOMELESS CHILDREN AND YOUTH (ARP-HCY) U.S. DEPARTMENT OF EDUCATION
AWARD NUMBER	S425D200029 (06/16/2020 – 09/30/2021); S425D210029 (01/05/2021 – 09/30/2022); S425W210040 (04/23/2021 – 09/30/2023)
COMPLIANCE REQUIREMENTS	ACTIVITIES ALLOWED OR UNALLOWED // ALLOWABLE COSTS/COSTS PRINCIPLES
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	<p>2 CFR Section 200.302 (a) establishes that each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award. In addition, 2 CFR Section 200.302 (b)(4) establishes that the financial management system of each non-Federal entity must provide effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes.</p> <p>Also, 2 CFR Section 200.303 (a) establishes that the non-Federal entity must establish and maintain effective internal control over the Federal Award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.</p> <p>In addition, 2 CFR Section 200.403 (b) establishes that except where otherwise authorized by statute, costs must be adequately documented in order to be allowable under Federal awards.</p>
STATEMENT OF CONDITION	<p>During our audit procedures regarding activities allowed or unallowed and allowable costs/cost principles of the program, we selected a sample of sixty-seven (67) vouchers and when evaluating them, we noted the following situations:</p> <ol style="list-style-type: none"> 1. In one (1) of the vouchers evaluated, the purchase order was created after the beginning of the service period. The purchase order was created on December 15, 2021 and the services were from November 12, 2021 to December 16, 2021. 2. In one (1) of the vouchers, the invoiced cost of the equipment included its installation, however there is no evidence in the documentation that support that the installation was carried out for all the equipment delivered, although the invoice amount was paid in full. 3. In one (1) of the vouchers evaluated, the total amount of goods received does not agree with the lead documents included in the supporting documents in the SIFDE system; in addition, the 3-way-match process in the SIFDE system was not performed.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2022-007 – continuation

4. In one (1) of the vouchers evaluated, we found that a duplicate payment was made to the supplier for the same invoice. Although the amount was recovered, the internal controls procedures failed to correct properly and in a timely manner the error.

QUESTIONED COSTS Undetermined.

PERSPECTIVE INFORMATION The deficiencies are caused by a lack of adequate internal controls on the part of the PRDE to established procedures to verify the supporting documents included in the SIFDE system, so that documents agree with the amount of goods received, the invoice and the voucher amount. In addition, a receiving report is not created for all applicable disbursements, so the 3-way-match system procedure is not performed adequately. In addition, for condition number one (1), there is a lack of adequate internal controls to monitor that a purchase order is created before a service is received.

For condition number four (4), there is a lack of adequate internal controls to stop a payment process when the invoiced amount is requested to be adjusted or when an invoice number is duplicated in the system. In addition, there are no adequate internal controls and communication between the different departments of PRDE to properly identify when a duplicate payment is withheld from another payment to the supplier. If adequate internal controls and communication within departments were held the collection invoice should not have to be sent and a third payment should not have to be made to the supplier in return for the withheld amount of the duplicate payment.

STATEMENT OF CAUSE The PRDE did not establish adequate internal controls to verify that the information included as supporting documents for the payment in the SIFDE system is correct and consistent with the goods that were received and invoiced. When the payment is processed there is not an adequate procedure to verify that the total amount of goods received agrees with the total amount of goods invoiced, and that the supporting documentation agrees with the voucher amount. For condition number one (1) the PRDE did not verify that a purchase order was created before the service was rendered. In addition, for condition number three (3) the established procedure in the SIFDE system for the 3-way-match was not performed and receiving reports were not created in the system.

For condition number four (4): In December 2021, the supplier submitted the invoice in the SIFDE system, the PRDE requested the supplier to adjust the invoiced amount, however the payment process was not stopped in the SIFDE system, and the payment was completed with the incorrect amount with check number 88074. Then in February 2022, the supplier adjusted that invoice to the correct amount and submitted the information to the SIFDE system with the same invoice number, however, despite the fact that the PRDE identified a duplicate invoice number, the payment process for this invoice was processed and completed with check number 90511. In March 2022, the PRDE identified the duplicate payment and proceeded to withhold the duplicate amount of the payment made to the supplier with check 104093. Later in April 2022, the PRDE sent an invoice for collection to the supplier for the duplicate payment and the supplier proceeded to return the money in May 2022. However, in March 2022 the duplicate payment had already been withheld from another payment made to the supplier, so the PRDE proceeded to make another payment to the supplier to return the amount that had been withheld, since the supplier returned the money through the collection invoice sent by the PRDE.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2022-007 – continuation
POSSIBLE ASSERTED EFFECT	The PRDE may be paying for goods or services that were not received, which could cause them to have to return funds to the Federal government and that the use of the allocated Federal funds is not being maximized. In addition, for condition number one (1), if a purchase order is not created before the service is received it could cause that when the payment of the service is processed there is no available funds to cover for the costs, because the obligation was not created to assign the program funds. Also, for condition number four (4), the PRDE incurred overpayments to suppliers for services not rendered to the PRDE.
IDENTIFICATION OF REPEAT FINDING	Not previously reported.
RECOMMENDATIONS	We recommend that the PRDE establish adequate and effective internal controls to verify and agree the supporting documents included in the SIFDE system with the total amount of goods received and the voucher amounts. In addition, we recommend that the receiving reports are created in the SIFDE system so the 3-way-match procedure can be performed adequately. Also, we recommend verifying the internal controls established for the creation of purchase orders, so an adequate procedure is established to verify that a purchase order is created before the service is received. For condition number four (4), we recommend that the PRDE establish adequate controls within the SIFDE system to stop the payment process for invoices requested to be adjusted and for invoices with the same numbers. In addition, we recommend that better controls and communication channels be established between departments so that a duplicate payment is not collected twice from the supplier.
VIEWS OF RESPONSIBLE OFFICIALS	<p>Management Response to Condition #1 and #3: Management concurs with the auditor’s finding. PRDE is committed to complying with all policies and procedures established. Even though, PRDE has taken steps to strengthen internal controls that will prevent situations as those mentioned on statement of condition #1 and #3. Also, the program will continue to enforce policies and procedures by training personnel.</p> <p>Management Response to Condition #2: This finding indicates that no evidence was provided to auditors that proves that installation services were carried out for all the equipment (electronic boards) delivered to schools. After reviewing the evidence provided to the auditors, the Receiving Reports (“Conduces”), that were signed by the school certifying that the goods and services were delivered, included the installation services. Even though, after the inventory observation procedures were performed by the auditors, the auditors identified one (1) electronic board that was delivered to a school but was not installed (refer to finding 2022-010). Also, in this school another eight (8) electronic boards, not selected for testing by the auditors, were identified as being delivered but not installed. DEPR will evaluate the instances mentioned. From this point forward, the Finance Department and the Property Department will ensure that all the equipment delivered to schools that requires installation services, are installed in the school assigned upon delivery. For more details refer to finding 2022-010.</p>

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2022-007 – continuation

Management Response to Condition #4:

Management concurs with the auditor’s finding, even though it is important to mention that the amount was recovered from the supplier before the audit process was carried out. Although the PRDE has in place controls to identify these improper disbursements, the Agency will be reevaluating the approval processes together with the Third-Party Fiduciary so that these incorrect disbursements do not occur. Also, PRDE will provide training to the Finance Department personnel related to the evaluation and approval of expenditures process.

IMPLEMENTATION DATE In Process

RESPONSIBLE PERSON Edgar Delgado
 Program Coordinator

 María de los Ángeles Lizardi
 Auxiliary Secretary for Federal Affairs

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2022-008
FEDERAL PROGRAMS	(ALN – 84.002) ADULT EDUCATION – BASIC GRANTS TO STATES (ALN – 84.027) SPECIAL EDUCATION – GRANTS TO STATES (IDEA, PART B) (ALN – 84.048) CAREER AND TECHNICAL EDUCATION – BASIC GRANTS TO STATES (PERKINS V) (ALN – 84.196A) EDUCATION FOR HOMELESS CHILDREN AND YOUTH (ALN – 84.425D) COVID-19 EDUCATION STABILIZATION FUND: ELEMENTARY AND SECONDARY SCHOOL EMERGENCY RELIEF FUND (ALN – 84.425R) COVID-19 EDUCATION STABILIZATION FUND: CORONAVIRUS RESPONSE AND RELIEF SUPPLEMENTAL APPROPRIATIONS ACT, 2021 – EMERGENCY ASSISTANCE TO NON-PUBLIC SCHOOLS (CRRSA EANS) (ALN – 84.425U) COVID-19 EDUCATION STABILIZATION FUND: AMERICAN RESCUE PLAN – ELEMENTARY AND SECONDARY SCHOOL EMERGENCY RELIEF FUND (ARP ESSER) (ALN – 84.425W) COVID-19 EDUCATION STABILIZATION FUND: AMERICAN RESCUE PLAN – ELEMENTARY AND SECONDARY SCHOOL EMERGENCY RELIEF FUND – HOMELESS CHILDREN AND YOUTH (ARP-HCY) (ALN – 84.938A) HURRICANE EDUCATION RECOVERY – IMMEDIATE AID TO RESTART SCHOOL OPERATIONS (RESTART) PROGRAM U.S. DEPARTMENT OF EDUCATION
AWARD NUMBERS	V002A190053 (07/01/2019 – 09/30/2020); V002A200053 (07/01/2020 – 09/30/2021); H027A190003 (07/01/2019 – 09/30/2020); V048A190052 (07/01/2019 – 09/30/2020); S196A190040 (07/01/2019 – 09/30/2020); S425D200029 (06/16/2020 – 09/30/2021); S425D210029 (01/05/2021 – 09/30/2022); S425R210053 (06/28/2021 – 09/30/2022); S425U210029 (03/24/2021 – 09/30/2022); S425W210040 (04/23/2021 – 09/30/2023); S938A18002 (04/26/2018 – 09/30/2023).
COMPLIANCE REQUIREMENT	ALLOWABLE COSTS/COSTS PRINCIPLES
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards Subpart E establishes the requirements for Cost Principles – Allowable Costs under Federal awards. This Section at § 200.403 discloses factors affecting allowability of costs – states that costs must meet the following general criteria in order to be allowable under Federal awards: (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles; and (g) Be adequately documented. Section § 200.404 Reasonable costs add: A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost including (c) Market prices for comparable goods or services for the geographic area. Also, § 200.405 Allocable Costs include that: A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received; including (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods.
STATEMENT OF CONDITION	During our internal control and compliance tests of disbursements for Federal programs, we selected seven (7) payments of professional services of Third-Party Fiduciary Agent Services ("TPFA") as part of our samples of the different Federal major programs. During our tests, we noted the following conditions:

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2022-008 – continuation

- Reasonableness of costs: The payment made to the vendor is a "flat fee" monthly payment agreed to in the professional service contract. Although the vendor invoice includes a detail of hours of service and expense summary, this information is solely for "information purposes" and not to be taken into account for the actual invoice payment process. The monthly payment amount only consideration is the agreed upon "flat fee". In the invoices evaluated (see detail below), the vendor includes the total hours incurred for each invoice with a price per hour range from \$543.42 to \$921. Also, the invoices include an expense summary for the period. When we compared the actual payment to the hours incurred and related expenditures, we noted an unreasonable charge to the PRDE and its Federal funds based upon the payment being made versus the actual service hours/expenses included on the invoice; when it is compared to price estimates made during the RFP process when the per hour price ranges were from \$65 to \$352.

VOUCHER NUMBER	VOUCHER DATE	VOUCHER AMOUNT	INVOICE NUMBER	INVOICE DATE	SERVICE PERIOD	TOTAL HOURS INVOICED	INVOICE AMOUNT	TOTAL RELATED EXPENSES	AVERAGE HOURLY RATE CALCULATED
01045563	9/10/2021	\$ 3,143,750.00	830311-2021-04	8/5/2021	July 2021	3,313.75	\$ 3,143,750.00	\$ 91,801.97	\$ 921.00
01049684	9/13/2021	3,143,750.00	830311-2021-05	9/3/2021	August 2021	4,681.25	3,143,750.00	167,096.24	635.87
01054436	10/12/2021	3,143,750.00	830311-2021-06	10/2/2021	September 2021	4,832.90	3,143,750.00	186,365.52	611.93
01059111	11/16/2021	3,143,750.00	830311-2021-07	11/1/2021	October 2021	4,678.20	3,143,750.00	265,746.64	615.19
01066083	1/11/2022	3,143,750.00	830311-2021-08	12/6/2021	November 2021	5,239.22	3,143,750.00	165,261.50	568.50
01066400	1/18/2022	3,143,750.00	830311-2021-09	1/5/2022	December 2021	5,272.49	3,143,750.00	278,552.08	543.42
01073782	3/1/2022	3,143,750.00	830311-2022-10	2/5/2022	January 2022	5,476.04	3,143,750.00	151,810.86	546.37
		<u>\$ 22,006,250.00</u>					<u>\$ 22,006,250.00</u>	<u>\$ 1,306,634.81</u>	

- Allocability – the payment made was distributed among several Federal programs and state funds as follows:

State Fund	CONSOLIDATED FUNDS (SEA/LEA)	ALN 84.425D	ALN 84.425R	ALN 84.425U	ALN 84.425W	ALN 84.938A	ALN 84.048	ALN 84.027	ALN 84.196A	ALN 84.002	TOTAL ALLOCATED AMOUNT
\$ -	\$ 1,412,230.23	\$ 445,449.18	\$ -	\$ -	\$ -	\$ 1,095,484.59	\$ 160,921.34	\$ -	\$ 18,197.88	\$ 11,466.78	\$ 3,143,750.00
-	3,052,003.76	-	-	-	-	-	-	-	-	91,746.24	3,143,750.00
-	1,417,811.20	1,417,811.20	-	-	-	-	-	35,057.00	43,890.25	229,180.35	3,143,750.00
-	1,812,026.49	1,331,723.51	-	-	-	-	-	-	-	-	3,143,750.00
-	1,381,829.54	-	-	1,761,920.46	-	-	-	-	-	-	3,143,750.00
-	-	1,015,556.29	60,405.00	1,957,677.56	110,111.15	-	-	-	-	-	3,143,750.00
<u>3,104,155.00</u>	<u>-</u>	<u>-</u>	<u>39,595.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,143,750.00</u>
\$ 3,104,155.00	\$ 9,075,901.22	\$ 4,210,540.18	\$ 100,000.00	\$ 3,719,598.02	\$ 110,111.15	\$ 1,095,484.59	\$ 160,921.34	\$ 35,057.00	\$ 62,088.13	\$ 332,393.37	\$ 22,006,250.00
14.11%	41.24%	19.13%	0.45%	16.90%	0.50%	4.98%	0.73%	0.16%	0.28%	1.51%	

Based on the payment documentation of the evaluated invoices, the allocations were made based on available budget of administrative allocation of Federal awards, the invoices didn't include any basis for the allocation of costs between Federal and non-Federal funds. For example, on invoice number 830311-2021-09 the amount of \$3,143,750 was charge completely to several programs of ALN 84.425, although the services described in the invoice were not related only to these programs; therefore, the cost objective is not chargeable in accordance with the relative benefit received. Also, in the description of hours worked, not identified the time spend in each Federal program.

QUESTIONED COSTS

Undetermined.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2022-008 – continuation

PERSPECTIVE INFORMATION The total contract amount awarded for the services over the two-year period is \$79,675,000, with a flat fee of \$3,143,750 for the first twelve months, and \$3,495,833 for the next twelve months. Based on the inconsistent cost allocation method and the lack of a requirement regarding the payments being made for actual works performed, we considered this a systematic problem in the contract management and payment. Based on the information provided and evaluated the allocation between Federal and non-Federal funds is not applied consistently, other four (4) invoices for a total amount of \$11,110,264 were paid from non-Federal funds during the fiscal year. In accordance with the documentation provided the allocation used is based on the budget amount that each Federal program has for administrative purposes and the contract amount excess is charged to state funds because it cannot be allocated to other Federal programs.

STATEMENT OF CAUSE The PRDE did not include on the RFP process and the contract negotiation a clause that requires that the payment of services will be made upon actual hours incurred or that a final reconciliation process will be made during the contract period of performance based on actual service hours and expense incurred. The PRDE agreed upon a "flat fee" contract based on an estimate / budget of hours presented by the vendor on its proposal without considering the requirement of adjusting the payment for actual workhours incurred as part of its contract negotiation. The PRDE staff could not provide the basis used to distribute the cost between the different programs and state funds in accordance with the benefit obtained from the costs incurred. There is no consistent treatment or basis for the allocation of the payment costs between Federal programs and state funds. The contract includes the accounting codes that can be charged for the contract costs; however, no amounts, limitations, or basis for the cost's distributions were included on the contract or in the payment documentation.

POSSIBLE ASSERTED EFFECT Unreasonable costs may be charged to the PRDE's Federal programs that may result in questionable or unallowable costs by the Federal grantors.

IDENTIFICATION OF REPEAT FINDING This is a repeat finding (Finding Reference Number 2021-006).

RECOMMENDATIONS We recommend to the PRDE to establish an adequate and consistent allocation method of each invoice amount that reflect the relative benefits that the Federal program received from the services provided by the supplier during the invoice period, so the Federal program can be charge the costs of that period. In addition, we recommend that the PRDE revised the contract terms to include a reconciliation of total hours and rates to adjust the payments made to the vendor before the contract expiration. Also, we recommend that the PRDE should request that adequate supporting evidence from the vendors be presented for any expenses to be reimbursed by the PRDE.

VIEWS OF RESPONSIBLE OFFICIALS
Management Response to Finding 2022-008 – Condition 1
PRDE does not agree with Condition 1 of this finding (Reasonableness of Costs). We understand that this finding is similar to 2021-006 when we noted that the audit team had not contacted PRDE's Procurement Office to discuss details of the TPFA procurement process. There are files available supporting the determinations made by the PRDE Evaluation Committee as it considered the procurement of TPFA services.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2022-008 – continuation

As a result of a Specific Conditions letter issued by the United States Department of Education (USDE), the PRDE was required to contract a Third-Party Fiduciary Agent (“TPFA”) to oversee the administration of federal funds. As this was the first time the PRDE was required to contract a TPFA, the PRDE received guidance from the USDE. The USDE reviewed and approved the key procurement terms of the RFP, including the stipulated “flat fee” provision for payment of TPFA services.

The initial TPFA contract was for a two-year period, beginning April 1, 2021, and terminating March 31, 2023. The monthly “flat fee” for each of the first twelve months was \$3,143,750 and the monthly “flat fee” for each of the second twelve months was \$3,495,833, or \$79,674,996 in total for the two-year period. The fixed monthly fees were a result of extensive negotiations between the PRDE and the selected vendor. The final contract, including the flat monthly fees, was approved by the USDE. Included in Exhibit B of the contract is a template of the monthly invoice stating that, although the hours and expenses are disclosed in the invoice, the information is solely for informational purposes and is not to be used to calculate the Total Amount Due, which in each month is the applicable “flat fee”.

We disagree with the audit finding that the hourly rate for TPFA services, received from July 2021 through January 2022, as calculated by the audit team, is unreasonable. The reasonableness of the hourly rate must be determined over the entire life of the contract, and not from a limited sample of invoices taken only during the first year of the contract. In determining its monthly fees for its contract with the PRDE, the vendor projected that the monthly hours would gradually increase as it “ramped up” the level of service according to the needs of multiple statements of work stipulated in the contract. The vendor estimated that the hourly rate for service professionals, over the entire life of the contract, would range between \$175 and \$700.

During the early months of the contract the ability of the vendor to ramp up its hourly services as originally projected was hindered by limitations on travel and access to PRDE personnel because of the COVID-19 epidemic. Consequently, the average rate per hour during those months was higher than estimated because the flat fees, after expenses, were allocated over fewer numbers of hours. As the vendor’s services ramped up, when limitations due to COVID-19 subsided and more hours were incurred each month, the average rate per hour decreased. The analysis below shows that, over the contract’s two-year life, the hourly rate began to decrease each month after June 2021, and continued to decrease on an accumulated basis. The accumulated two-year rate for TPFA services was \$438 and in March 2023, the rate per hour had dropped to \$319, well within the range stipulated in the monthly invoice template.

The audit team also states that the RFP process indicated the per hour price ranges were from \$65 to \$352. The PRDE’s response is that the rates in the RFP were expected to be local billing rates and not rates of a global consulting firm providing TPFA services from a team of experienced senior professionals. The range of rates noted in the invoice template, i.e., \$175 - \$700, approximates rates of the US General Services Administration (GSA).

Auditor Comment on Management Response for Finding No. 2022-008 – Condition 1

The auditors requested all information regarding this process and interviewed the Puerto Rico Secretary of Education and the Finance Director. We evaluated all documentation provided, including the procurement process. Our determination of unreasonable rate is based on the fact that, based on the total hours included in the invoices evaluated, the price per hour ranges from \$543.42 to \$921, presented by the vendor. The Finding prevails and corresponds to the US Department of Education the final determination.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2022-008 – continuation

Management Response to Finding 2022-008 – Condition 2

The PRDE does not agree with Condition 2 of the finding (Allocability). The funding of TPFA invoices from various federal funds was a result of (i) discussions between the PRDE and the USDE, (ii) the USDE's authorization for the availability of federal funds to pay TPFA invoices and (iii) the actual availability of federal and state funds at the PRDE.

The TPFA services are applicable to all federal funds under the TPFA's administration, and its work is not directly tied to any specific grant. The funding for TPFA services is divided between federal and state funds as agreed between the PRDE and the USDE and payment for those services is determined based upon the availability of both federal and state funds. TPFA services are conducted for the benefit of the entire PRDE organization and, as such, are overhead costs not directly tied to a specific program purpose. In addition, funds used to pay TPFA invoices are sourced from grant administration accounts that are specifically designated for the payment of overhead costs.

Auditor Comment on Management Response for Finding No. 2022-008 – Condition 2

As stated in CONDITION 2., "...the allocations were made based on available budget of administrative allocation of Federal awards, the invoices didn't include any basis for the allocation of costs between Federal and non-Federal funds." The deficiency is related to documentation of the benefit obtained from the costs incurred on each program. The Finding prevails and corresponds to the US Department of Education the final determination.

Management Response to Finding 2022-008 – Recommendations:

The PRDE does not agree with the Recommendation to establish an allocation method for TPFA invoices because, as noted above, TPFA services are overhead costs paid from administrative funds and are not tied to any specific federal grant. In addition, the PRDE does not agree that contract terms should be revised before the contract expiration to require a reconciliation of total hours and rates because again, payments to the TPFA are overhead costs not directly tied to any specific program. Finally, the PRDE does not agree with the recommendation that the TPFA submit supporting evidence for the reimbursement of expenses because (i) the TPFA contract is a fixed fee that is inclusive of all professional service fees and expenses and (ii) the TPFA provides an explanation of major expenses incurred within each monthly invoice.

Auditor Comment on Management Response for Finding No. 2022-008

As stated in CONDITION 2., "...on invoice number 830311-2021-09 the amount of \$3,143,750 was charge completely to several programs of ALN 84.425, although the services described in the invoice were not related only to these programs; therefore, the cost objective is not chargeable in accordance with the relative benefit received."

Further, the 2 CFR 200.1, establishes that: "Indirect (facilities & administrative (F&A)) costs mean those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools must be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived." This information was not provided for our evaluation.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2022-008 – continuation**

IMPLEMENTATION DATE Not required.

RESPONSIBLE PERSON María de los Ángeles Lizardi
 Auxiliary Secretary for Federal Affairs

 Jullymar Octtaviani Vega
 Sub-Secretary of Administration

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2022-009
FEDERAL PROGRAMS	<p>(ALN – 10.553) SCHOOL BREAKFAST PROGRAM (SBP) – CHILD NUTRITION CLUSTER (ALN – 10.555) NATIONAL SCHOOL LUNCH PROGRAM (NSLP) – CHILD NUTRITION CLUSTER (ALN – 10.559) SUMMER FOOD SERVICE PROGRAM FOR CHILDREN (SFSP) – CHILD NUTRITION CLUSTER (ALN – 10.582) FRESH FRUIT AND VEGETABLE PROGRAM (FFVP) – CHILD NUTRITION CLUSTER U.S. DEPARTMENT OF AGRICULTURE</p> <p>(ALN – 84.002) ADULT EDUCATION – BASIC GRANTS TO STATES (ALN – 84.013) TITLE I STATE AGENCY FOR NEGLECTED AND DELINQUENT CHILDREN AND YOUTH (ALN – 84.027) SPECIAL EDUCATION – GRANTS TO STATES (IDEA, PART B) (ALN – 84.041) IMPACT AID (TITLE VII OF ESEA) (ALN – 84.048) CAREER AND TECHNICAL EDUCATION – BASIC GRANTS TO STATES (PERKINS V) (ALN – 84.367) SUPPORTING EFFECTIVE INSTRUCTION STATE GRANTS (FORMERLY IMPROVING TEACHER QUALITY STATE GRANTS) (ALN – 84.425D) COVID-19 EDUCATION STABILIZATION FUND: ELEMENTARY AND SECONDARY SCHOOL EMERGENCY RELIEF FUND U.S. DEPARTMENT OF EDUCATION</p>
AWARD NUMBERS	<p>V002A200053 (07/01/2020 – 09/30/2021); 1PRAEA17SCESUBA (10/01/2017 – 09/30/2018); 1PRAEA18SCESUBA (10/01/2018 – 09/30/2019); 1PRAEA19SCESUBA (10/01/2019 – 09/30/2020); 1PRAEA20SCESUBA (10/01/2020 – 09/30/2021); 1PRAEA21SCESUBA (10/01/2021 – 09/30/2022); H027A17003 (07/01/2017 – 09/30/2018); H027A18003 (07/01/2017 – 09/30/2018); H027A19003 (07/01/2018 – 09/30/2019); H027A20003 (07/01/2019 – 09/30/2020); S013A180052 (07/01/2018 – 09/30/2019); S041B20135689 (10/01/2012 – 09/30/2013); V048A180052 (07/01/2018 – 09/30/2019); S367A180052 (07/01/2018 – 09/30/2020); S425D200029 (06/16/2020 – 09/30/2021); S425D210029 (01/05/2021 – 09/30/2022).</p>
COMPLIANCE REQUIREMENT	ALLOWABLE COSTS/COSTS PRINCIPLES
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	<p>2 CFR Section 200.403 (b) establishes that except where otherwise authorized by statute, costs must be adequately documented in order to be allowable under Federal awards. In addition 2 CFR Section 200.53, defines improper payments as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. 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.</p>
STATEMENT OF CONDITION	<p>As part of our audit procedures and interviews over financial reporting, we obtained a detail of accounts receivable related to duplicate payments or incorrect payments made for payroll transactions in the amount of \$5,053,714. Invoices issued during the fiscal year ended June 30, 2022 balance, were distributed as Federal and state, as follows:</p>

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2022-009 – continuation

Assistance Listing Number	Program Description	Transaction Balance
10.553/ 10.555/ 10.559/ 10.582	Child Nutrition Cluster	\$ 162,267
84.002	Adult Education - Basic Grants to States	2,000
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	327
84.027	Special Education - Grants to States (IDEA, Part B)	132,932
84.041	Impact Aid (Title VII of ESEA)	5,880
84.048	Career and Technical Education - Basic Grants to States (Perkins V)	2,430
84.367A	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	946
84.425D	Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund	52,256
Not Determined	Schoolwide Program (State and Federal Funds)	1,225,443
Not Determined	Consolidated Funds (State and Federal Funds)	26,772
Not Applicable	State Funds	<u>3,442,461</u>
Total Invoices Issued Balance at 06/30/2022		<u>\$ 5,053,714</u>

We selected ten (10) employees to determine the reason for the overpayment. We noted the instances are related to resignations from 2002 to 2021, which continued to be paid after the resignation became effective.

QUESTIONED COSTS Identified questioned costs are \$359,038, for which were identified as employees that didn't work for the Federal program. Other amounts may be unallowed, if the PRDE can identify the portion of Federal funding incurred in Schoolwide and Consolidated activities.

PERSPECTIVE INFORMATION The amount of \$5,053,714, corresponds to incorrect payroll payments made from prior years, for which during fiscal year 2021-2022, the PRDE determined that an invoice for excess payroll payments proceeds. The PRDE was unable to indicate which amount of Schoolwide or Consolidated funds corresponds to Federal funding, because these funds close at year end.

STATEMENT OF CAUSE The PRDE sends the Treasury Department of Puerto Rico a balance of the payroll, before the end of the fortnight, to speed up the payment process. By sending this information without balancing the hours worked, it causes errors in the payroll computations. In addition, according to interviews, the schools and regions send reports of changes and leave without pay, with several days and even weeks late. This causes payrolls of employees who are undergoing leave without pay to be sent for pay.

The PRDE does not have adequate internal controls to be able to timely detect and remove employees who have resigned from the payroll platform.

POSSIBLE ASSERTED EFFECT The PRDE incurred payments to employees for hours not worked, and for which specific grants were received.

IDENTIFICATION OF REPEAT FINDING This is a repeat finding (Finding Reference Number 2021-007).

RECOMMENDATIONS We recommend PRDE design and implement adequate internal controls and payroll processes that will identify in real – time or sooner any incorrect payroll payment made.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2022-009 – continuation

VIEWS OF RESPONSIBLE
OFFICIALS

Management agrees with the audit finding and implemented a corrective action plan. Below you will find a summary of the progress of the implementation of the Project of Integration between TAL (Time, Attendance and Leaves) System and Payroll (RHUM) System.

As part of the PRDE Fiscal Plan of 2020-2021, the official integration between the TAL system and payroll (RHUM) was incorporated. This process was driven to ensure to pay the payroll of PRDE's employees based on the validation of the employee's presence (attendance) at work as captured/recorded by the TAL system. The controls added to the system require the employees to punch in and out (with their fingerprints) or have an authorized leave (vacation or sick) completed through the corresponding form, documented in system and certified by their supervisor, in order to receive payment for the services provided to the program or office where they perform daily. If this step is not completed in a timely manner, a notification is issued, and an adjustment is automatically made.

Therefore, PRDE is significantly reducing the over payments, duplicated and/or improper payments related to this payroll finding. This project started on November 2020, with the support of the consultants of the Puerto Rico Fiscal Oversight and Management Board (FOMB)- MS Consulting; PRDE personnel and staff from the Department of the Treasury (Hacienda). The plan also integrated various governmental dependencies such as: PRDE, Hacienda, Fiscal Oversight and Management Board; Financial Advisory Authority (AAFAF, by its acronym in Spanish), and the Puerto Rico Innovation and Technology Service (PRITS).

Throughout the deployment of the mentioned project, the system controls and integration were completed on February 2021. The additional activities that are part of the Corrective Action Plan, continued with the development of a New Time and Attendance Policy applicable to the PRDE personnel, of December 7, 2021, which was later updated on April 11, 2022.

This new policy covers the following:

- Duties and responsibilities of all PRDE's employees regarding TAL;
- The list and definitions of authorized leaves that could be requested by PRDE employees;
- Disciplinary actions and procedures related to notifications and discounts, if there are noncompliance with timeframes;
- Specific procedures of warning letters to supervisors that don't follow the new policy satisfactorily; and
- Other related payroll matters

These norms define specifically the procedures of how to record presence in the system, and how to apply the work time when requesting a leave that should be approved by the employee supervisor. As mentioned, if not perform effectively and in accordance with the Time and Attendance Policy, the employee will automatically get the notification and discount.

The Time and Attendance staff has continued the following:

- Training activities with PRDE personnel in various events;
- Monitoring of the behavior of the employee's attendance through the system Dashboard;
- Issuance of warnings and discount notifications to the applicable staff;
- Performing the mandatory discounts biweekly; and
- Other related activities

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2022-009 – continuation**

Time and Attendance personnel will continue to follow up to this project performing any subsequent and on-going activities as outlined by the corresponding plan.

IMPLEMENTATION DATE Already implemented

RESPONSIBLE PERSON Judith Parilla
Accounts Receivable Supervisor

Evelyn Rodríguez Cardé
Finance Director

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2022-010
FEDERAL PROGRAMS	(ALN – 84.027) SPECIAL EDUCATION – GRANTS TO STATES (IDEA, PART B) – SPECIAL EDUCATION CLUSTER (IDEA) (ALN – 84.173) SPECIAL EDUCATION – PRESCHOOL GRANTS (IDEA PRESCHOOL) – SPECIAL EDUCATION CLUSTER (IDEA) (ALN – 84.425D) COVID-19 EDUCATION STABILIZATION FUND: ELEMENTARY AND SECONDARY SCHOOL EMERGENCY RELIEF FUND U.S. DEPARTMENT OF EDUCATION
AWARD NUMBERS	H027A190003 (07/01/2019 – 09/30/2020); H027A200003 (07/01/2020 – 09/30/2021); H173A190003 (07/01/2019 – 09/30/2020); H173A200003 (07/01/2020 – 09/30/2021); S425D200029 (06/16/2020 – 09/30/2021)
COMPLIANCE REQUIREMENT	EQUIPMENT AND REAL PROPERTY MANAGEMENT
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	2 CFR Section 200.313, establishes that procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements: (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
STATEMENT OF CONDITION	As part of our procedures regarding equipment requirements, we requested an inventory of equipment from the PRDE as of June 30, 2022. The inventory detail submitted does not present any disposition of assets, nor are there any assets identified that have been affected by the earthquakes that occurred between December 2019 and January 2020, which damaged school structures. No inventory was taken since 2019. We selected a sample of twenty-five (25) units for the IDEA Cluster, to determine that the items were properly safeguarded and the usage was in accordance with the regulations. We found the following deficiencies: <ol style="list-style-type: none"> 1. One (1) item (electronic board) The inventory report showed that the electronic board was in one school, but it was transferred to another school and the equipment has not yet been installed in the new school. 2. One (1) item (an interactive flat screen), was located in a different location than what appeared in the inventory provided. 3. One (1) item (swing) for elementary school ages was in boxes in a library storage room, this school where it was stored is a middle school. 4. One (1) item (electronic board) was purchased for a classroom that has been closed since the earthquakes that occurred between December 2019 and January 2020. The purchase of the item was made in May 2022. This item has not been installed.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2022-010 – continuation

We selected a sample of twenty-five (25) units for the ESSER Program, to determine that the items were properly safeguarded and the usage was in accordance with the regulations. We found the following deficiencies:

1. One (1) item (electronic board) was located in the school assigned in the report with its property tag number but was still in the box without being installed. The purchase of the item was made in February 2022. Other eight (8) electronic boards assigned to the school are in the same condition as the one evaluated. According to the staff of the school, the school will be demolished to build a new one.
2. Two (2) items (thermometers) were located in the schools assigned in the report with its property tag number but there were damaged and not in use. No adjustments were made to the property records for this items.

QUESTIONED COSTS None.

PERSPECTIVE INFORMATION No inventory taken was provided, the last inventory was made in 2019, which reflected deficiencies. Deficiencies identified are a systemic problem. Items purchased during the fiscal year under audit were not located, no proper tracking of transfer of equipment is maintained in the PRDE.

STATEMENT OF CAUSE Due to various natural events that have occurred and the COVID-19 pandemic, the PRDE has not been able to work with the inventory and update it.

POSSIBLE ASSERTED EFFECT It was not possible to validate that the PRDE complies with the requirements established by the Federal regulation related to the maintenance of records of equipment acquired with Federal funds. In addition, deficiencies were noted in the usage and proper safeguard of the equipment purchased.

IDENTIFICATION OF REPEAT FINDING This is a repeat finding (Finding Reference Number 2021-008).

RECOMMENDATIONS We recommend that the PRDE carry out an inventory and reconcile it with the records maintained by the PRDE. In addition, internal controls must be implemented in order to provide certainty that only equipment that is necessary for the operation of the program is purchased. In addition, the use of this equipment must be monitored, so that its installation and use are followed up, as well as the transfer of equipment.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2022-010 – continuation

IEWS OF RESPONSIBLE
 OFFICIALS

PRDE agrees with the conditions found and following are the actions performed or to be performed:

IDEA cluster:

Items one (1) and two (2) were already updated in the accounting system (Asset Management Module (“AMM”)) and item three (3) was already transferred to an elementary school for their corresponding use. Correspondingly, this item was updated in AMM.

As said in the condition, item four (4) is in a school which has an affected classroom after the earthquakes. Therefore, the board will not be installed until the classroom has been conditioned and has been safe for the personnel and students.

ESSER program:

As said in condition one (1), the school will be under remodeling process, therefore the electronic boards will not be installed until finished to keep the equipment safe and under the custody of the personnel in charge.

Items included in condition (2) are under the process of decommission. The process of decommission requires coordination and a reasonable time to be completed. Once the property department has been notified as part of the regular process, proper adjustments in AMM will be performed.

Property and equipment inventory:

The identified matter related to the physical inventory pertains to challenges attributed to the significant disruptions caused by the COVID-19 pandemic and earthquakes. To address this situation, the following plan is on development. First, the physical inventory is currently in process with meticulous attention to details and accuracy over the equipment. In parallel, SIFDE accounting system will be used to conduct system-based inventory count, ensuring the accuracy of inventory records. Efforts made to perform the inventory despite difficulties will be meticulously recorded for audit trail purposes.

A monitoring mechanism was set up to track progress towards completing the inventory. Additionally, once the inventory is completed, immediate attention will be given to update any outdated data about location and custodian found during the process, ensuring the overall integrity of the financial records.

IMPLEMENTATION DATE In Process

RESPONSIBLE PERSON Nilda Morales
 Property Director

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2022-011
FEDERAL PROGRAMS	(ALN – 84.027) SPECIAL EDUCATION – GRANTS TO STATES (IDEA, PART B) – SPECIAL EDUCATION CLUSTER (IDEA) (ALN – 84.173) SPECIAL EDUCATION – PRESCHOOL GRANTS (IDEA PRESCHOOL) – SPECIAL EDUCATION CLUSTER (IDEA) U.S. DEPARTMENT OF EDUCATION
AWARD NUMBER	H027A190003 (07/01/2019 – 09/30/2020); H173A190003 (07/01/2019 – 09/30/2020)
COMPLIANCE REQUIREMENT	PERIOD OF PERFORMANCE
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	In accordance with Section 421(b) of GEPA (20 USC 1225(b)); 34 CFR Sections 76.703 through 76.710, all ESEA and other programs as identified in the program documents – LEAs and SEAs must obligate funds during the 27 months, extending from July 1 of the fiscal year for which the funds were appropriated through September 30 of the second following fiscal year. This maximum period includes a 15-month period of initial availability plus a 12-month period for carryover. For example, funds from the fiscal year 2019 appropriation initially became available on July 1, 2019 and may be obligated by the grantee and subgrantee through September 30, 2021.
STATEMENT OF CONDITION	As part of our audit procedures on internal controls and compliance related to period of performance of the IDEA Cluster program, journal entries for the H027A190003 grant made during January 2022, we noted an adjustment made to reclassify a payroll from October 2021 from fund 111 to Grant H027A19003, which is after the period of performance of the grant.
QUESTIONED COSTS	None.
PERSPECTIVE INFORMATION	This is a systemic deficiency. The PRDE didn't provide evidence that the US Department of Education granted an additional period to make payments from the FY 2020 grant.
STATEMENT OF CAUSE	The PRDE may have understood that they might continue to make payments from the FY 2020 grant, without a written waiver from the US Department of Education.
POSSIBLE ASSERTED EFFECT	The PRDE claimed and drawdown funds from the FY2020 after the period of performance allowed in the grant award, for payroll.
IDENTIFICATION OF REPEAT FINDING	No prior audit finding.
RECOMMENDATIONS	We recommend that the PRDE establish and monitor the period of performance of their grants, in order to ascertain that no payments are made after the period allowed.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2022-011 – continuation

VIEWS OF RESPONSIBLE OFFICIALS

PRDE acknowledges the finding and takes full responsibility for the oversight. During the grant's closing process, an unintentional error occurred where the federal program accountant erroneously adjusted a portion of payroll pertaining to October 2021, a period beyond the grant's performance timeline. The erroneously adjusted amount for October 2021 totals \$80,906.91.

As part of our commitment to rectify this issue, we are adjusting this balance to the correct grant award. We recognize the importance of adhering to the stipulated timelines and are working diligently to record this adjustment.

Also, PRDE is prepared to return the funds to ensure full compliance with grant requirements. We understand the significance of fiscal responsibility and are implementing measures to prevent such errors in the future. Additionally, we will enhance internal controls and provide additional training to our staff involved in the grant closing process to mitigate the risk of similar occurrences. PRDE is committed to transparent communication throughout this process and will keep all relevant personnel involved in this matter informed of the resolution progress.

IMPLEMENTATION DATE

Current Fiscal Year

RESPONSIBLE PERSON

Enid Díaz Nieves
Executive Director Associate Secretary of Special Education

Noelia Cortés
Associate Secretary of Special Education

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2022-012
FEDERAL PROGRAMS	(ALN – 84.027) SPECIAL EDUCATION – GRANTS TO STATES (IDEA, PART B) – SPECIAL EDUCATION CLUSTER (IDEA) (ALN – 84.173) SPECIAL EDUCATION – PRESCHOOL GRANTS (IDEA PRESCHOOL) – SPECIAL EDUCATION CLUSTER (IDEA) U.S. DEPARTMENT OF EDUCATION
AWARD NUMBERS	H027A190003 (07/01/2019 – 09/30/2020); H027A200003 (07/01/2020 – 09/30/2021); H173A190003 (07/01/2019 – 09/30/2020); H173A200003 (07/01/2020 – 09/30/2021).
COMPLIANCE REQUIREMENT	PROCUREMENT AND SUSPENSION AND DEBARMENT
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	2 CFR Section 200.317, establishes that when procuring property and services under a Federal award, a state must follow the same policies and procedures it uses for procurements from its non-Federal funds.
STATEMENT OF CONDITION	As part of our audit procedures on internal controls and compliance related to procurement of the IDEA Cluster program, we found the following deficiencies: <ol style="list-style-type: none"> 1. In the selected sample of disbursements of forty-three (43) vouchers related to therapy and other related services, the PRDE provided evidence on the procurement process. From the evaluations submitted to bidders who were awarded the service, it was possible to observe comments and scores indicating that it did not meet the specifications. Specifically, we noted that some proponents received less than 50 points in the evaluation, but it was classified as “recommended”. 2. We noted that for two (2) proponents, the evaluation indicated that the proposal didn’t comply with Federal Law Number 108-446. As indicated in the guide to preparing proposals: “Proponent must provide a general idea of how your services will contribute to compliance with Law No. 51 of June 7, 1996, as amended, “Law on Comprehensive Educational Services for Persons with Disabilities”, Federal Law No. 108-446, as amended, Individuals with Disabilities Education Improvement Act and with the Stipulation Sentence in the Rosa Lydia Vélez case. In addition, the guide to present proposals required audited financial statements of the proponents, we identified three proponents that did not present the audited financial statements, but the person that evaluated the proposal indicated that the proponent complied. 3. We selected three (3) disbursements for which it applied quotation process. No documentation was provided regarding the process performed.
QUESTIONED COSTS	None.
PERSPECTIVE INFORMATION	This is a systemic deficiency.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2022-012 – continuation
STATEMENT OF CAUSE	The PRDE maintains several areas to carry out the procurement processes, and they are not necessarily governed by the current regulations of the PRDE.
POSSIBLE ASSERTED EFFECT	The PRDE's procurement processes do not provide transparency and fairness when conducting and awarding procurement. These deficiencies do not meet the Federal requirements to provide control mechanisms to avoid waste, fraud and abuse in the administration of Federal funds.
IDENTIFICATION OF REPEAT FINDING	This is a repeat finding (Finding Reference Number 2021-010).
RECOMMENDATIONS	We recommend that the PRDE establish updated regulations that address the different realities of the PRDE. In addition, we recommend that recurring purchases can be projected to maximize procurement processes, and avoid splitting purchases, which are more expensive for the PRDE.
VIEWS OF RESPONSIBLE OFFICIALS	<p>Management Response to Condition #1</p> <p>Management agree with the condition. The DEPR, through the SAEE, has the responsibility of providing educational and related services to students with disabilities in accordance with the provisions of Law No. 51 of June 7, 1996, as amended, "Comprehensive Related Services Law." for Persons with Disabilities", the "Federal Law No. 108-446, as amended, "Individuals with Disabilities Education Improvement Act" and with the ruling by stipulation of the case Rosa Lydia Vélez vs. Department of Education. The SAEE, with the purpose of expanding its resource bank, requested proposals aimed at offering the following services: 1. Evaluation, 2. Intervention, or 3. Evaluation and therapy.</p> <p>We understand that the specific needs of special education students often require specialized approaches. Although the proponents did not meet the score established in the formal RFP criteria, their expertise and particular approach were recognized and considered valuable in addressing the unique complexities and challenges our students face. The DEPR for the 2022–2023 fiscal period established a memorandum explaining the particular situations in which service providers, even when they did not meet the score, were selected to be able to offer unique services to students. This memorandum will be made for the proposals established in this condition as a corrective action and will be documented in the corresponding service proposal files.</p> <p>Management Response to Condition #2</p> <p>After reviewing the three proposals, it was identified that the person in charge of the evaluation incorrectly identified the financial statements. The PRDE accepts the finding and will work with the corresponding areas of the evaluations so that the staff is properly instructed on how to distinguish between the different financial reports in order to perform a correct evaluation in accordance with PRDE guidelines.</p> <p>Management Response to Condition #3</p> <p>Management agrees in part with the condition. We recognize that the information was not available for the auditor's observation; however, the processes were performed in accordance with the procedure guidelines established in the PRDE. Furthermore, PRDE will take the necessary steps to obtain the requested documents and make them available for the auditors' observation and analysis. PRDE is committed to reviewing its internal procedures to reinforce the delivery of documents and make them available for future audits.</p>

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2022-012 – continuation

Auditor Comment on Management Response for Finding No. 2022-012 – Condition #3

This deficiency was notified since September 2023 and in May 2024 they had not yet submitted the information to validate that the processes were performed in accordance with the procedure guidelines established in the PRDE for our evaluation and analysis.

IMPLEMENTATION DATE In Process

RESPONSIBLE PERSON Enid Díaz Nieves
Executive Director Associate Secretary of Special Education

Noelia Cortés
Associate Secretary of Special Education

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2022-013
FEDERAL PROGRAMS	ALL MAJOR PROGRAMS
AWARD NUMBERS	ALL MAJOR PROGRAMS
COMPLIANCE REQUIREMENT	REPORTING
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	2 CFR § 200.512 Report Submission, (a) (1) The audit must be completed and the data collection form described in paragraph (b) of this Section and reporting package described in paragraph (c) of this Section must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. If the due date falls on a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day.
STATEMENT OF CONDITION	The PRDE did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2022 during the required period.
QUESTIONED COSTS	None
PERSPECTIVE INFORMATION	The PRDE was unable to provide a timely financial statement and the Schedule of Expenditures of Federal Awards (SEFA), and related supporting documentation in order to apply required audit procedures.
STATEMENT OF CAUSE	The PRDE did not have an effective accounting system and procedures to assure that the required financial statement and SEFA, and supporting documentation was made available for audit purposes within the required period established to comply with the Federal regulations.
POSSIBLE ASSERTED EFFECT	The PRDE did not comply with the submission date required for the Data Collection Form and Reporting Package, this could affect the continuance and new approvals of Federal funds.
IDENTIFICATION AS A REPEAT FINDING	This is not a repeat finding.
RECOMMENDATION	We recommend the PRDE maintain adequate accounting records related to the non-Federal and Federal funds in order to properly prepare the financial statement and SEFA accurately, and in a timely manner. In addition, PRDE needs to implement adequate internal controls procedures in order to ensure that the supporting documentation is available in a timely manner.
VIEWS OF RESPONSIBLE OFFICIALS	<p>PRDE agrees with the finding. However, as detailed in our request for extension to our cognizant agency dated March 21, 2023, PRDE has been confronting various challenges that did not allow the filing of the financial statements on time as has been done in previous years.</p> <p>The PRDE is working hard to bring up to date the issuance of financial statements. The different areas in charge of the federal funds, including the Third-Party Fiduciary, are improving the communication channels, processes and supporting documentation necessary to be able to comply with the issuance of financial statements on time as appropriate.</p>
IMPLEMENTATION DATE	June 15, 2024
RESPONSIBLE PERSON	Evelyn Rodríguez Cardé Finance Director

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2022-014
FEDERAL PROGRAMS	(ALN – 10.555) NATIONAL SCHOOL LUNCH PROGRAM (NSLP) – CHILD NUTRITION CLUSTER (ALN – 10.559) SUMMER FOOD SERVICE PROGRAM FOR CHILDREN (SFSP) – CHILD NUTRITION CLUSTER U.S. DEPARTMENT OF AGRICULTURE
AWARD NUMBERS	202121N109941 (07/20/2020 – 06/30/2022)
COMPLIANCE REQUIREMENT	REPORTING – FFATA
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	In accordance with 2 CFR Part 170, establish that recipients (i.e., direct recipients) of grants or cooperative agreements are required to report first-tier subawards of \$30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). The non-Federal entity or Federal agency must report each obligating action to http://www.fsrs.gov . For subaward information, report no later than the end of the month following the month in which the obligation was made.
STATEMENT OF CONDITION	As part of our audit procedures, we interviewed staff responsible for the Child Nutrition Cluster [National School Lunch Program (NSLP) and Summer Food Service Program For Children (SFSP)] programs, and we were told that they had not been submitted the required Federal Funding Accountability and Transparency Act (FFATA) reports during the 2021-2022 fiscal year.
QUESTIONED COSTS	None
PERSPECTIVE INFORMATION	During the fiscal year, the PRDE awarded approximately 38 awards [29 under the National School Lunch Program (NSLP) and 9 under the Summer Food Service Program For Children (SFSP)] that exceeded the \$30,000 reporting threshold subject to the FFATA requirements.
STATEMENT OF CAUSE	The PRDE staff were unaware of the requirements related to the Federal Funding Accountability and Transparency Act (FFATA) applicable to the Child Nutrition Cluster programs they manage for that fiscal year ended June 2022.
POSSIBLE ASSERTED EFFECT	The PRDE is in non-compliance with the requirements to report through the FFATA Subaward Reporting System (FSRS) platform. This condition does not allow for the transparency that this report requires.
IDENTIFICATION AS A REPEAT FINDING	This is not a repeat finding.
RECOMMENDATION	We recommend management to provide training and technical assistance to the personnel they designate to monitor all the funds delegation contracts that meet the requirements to be reported on the FSRS portal, and to be able to keep track of when they had to be reported, the date in which they submitted the information to the portal, and all the elements required to be submitted on the platform.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2022-014 – continuation

VIEWS OF RESPONSIBLE OFFICIALS

Management acknowledge the finding that PRDE was unaware of the FFATA requirements applicable to the programs during the fiscal year ended. PRDE recognize the importance of the compliance with federal regulations, and steps have been taken to ensure that our team is well-informed about such requirements moving forward.

In response to this finding, PRDE are reviewing and enhancing our internal controls to include regular updates on federal regulations, ensuring that our team stays up-to-date with any changes to reporting obligations; and the commitment to continuous monitoring and periodic assessments to ensure ongoing compliance with FFATA requirements.

PRDE understand the urgency of addressing this matter and are committed to completing the corrective action measures, this includes the submission of any required reports related to FFATA for the fiscal year ended June 2022 and 2023.

IMPLEMENTATION DATE July 30, 2024

RESPONSIBLE PERSON Odalis Menard
Executive Director / Accounting Supervisor

Lourdes García Santiago
AESAN Director

END OF SCHEDULE

(1) AUDIT FINDINGS THAT HAVE BEEN FULLY CORRECTED:

Findings Related to the Financial Statement:

FISCAL YEAR 2018

Finding Reference Number	2018-004 Material Noncompliance and Material Weakness – Reporting
Statement of Condition	Management does not have effective controls to timely submit and to maintain adequate documentation to support the data reported in the Child Count Report Raw Data.
U.S. Department of Education	(ALN – 84.027) Special Education – Grants to State (IDEA, Part B) Cluster (ALN – 84.173) Special Education – Preschool Grants (IDEA Preschool)
Questioned Cost	Could not determined
Current Status	As per Program Determination Letter (Audit Control Number 02-18-99454) dated July 14, 2022, received from the Office of Special Education and Rehabilitative Services of the US Department of Education (USDE), they required the PRDE that within 90 days of that date, must provide documentation demonstrating all instances identified by the auditors have been addressed and resolved. Also, the PRDE must submit a description of any additional actions it has taken or will take regarding data, records, and files to ensure continued strengthening of its internal controls.

FISCAL YEAR 2019

Finding Reference Number	2019-002 Noncompliance and Significant Deficiency
Statement of Condition	Form 499R-4 missing on some employees' files and Medicare withholdings were not properly made.
U.S. Department of Education	(ALN – 84.027) Special Education – Grants to State (IDEA, Part B) Cluster (ALN – 84.173) Special Education – Preschool Grants (IDEA Preschool)
Questioned Cost	None
Current Status	<u>Program Determination Letter for ALN 84.027</u> : As per Program Determination Letter (Audit Control Number 02-19-19412) dated July 14, 2022, received from the Office of Special Education and Rehabilitative Services of the US Department of Education (USDE), they expect the PRDE to work collaboratively with the TPFAs and apply procedures for properly charging salary costs to the PRDE programs.

(1) AUDIT FINDINGS THAT HAVE BEEN FULLY CORRECTED: – continuation

FISCAL YEAR 2020

Finding Reference Number **2020-001** **Significant Deficiency**

Statement of Condition Annually, the PRDE receives funds from the Commonwealth for the operation of the Office for the Improvements of Public Schools (OMEP) as part of the General Fund appropriation. This office is a department or fund within the PRDE structure. During our audit procedures of the financial statement of the PRDE, we noted that the PRDE only accounts for the payroll and fringe benefit expenditures appropriated for the fiscal year. The other funds appropriated on the budget approved are transfers to the OMEP separate bank accounts from which payments for other budgeted expenditures related to the OMEP operations are drafted. OMEP maintains separate accounting for these funds and is not subject to the PRDE's supervision or fiscal oversight. The PRDE does maintain and account for a final liquidation of funds not expended by the OMEP at year end. However, for the fiscal year under audit the final liquidation of funds not expended by OMEP (amounting to \$2,505,727) was received after the year-end closeout period and was register on the next fiscal year as a reduction of expenditures of the following year.

Recommendation We recommend the PRDE to maintain adequate records related to the actual expenditures incurred by OMEP and perform monthly monitoring of the financial transactions of the OMEP by the PRDE accounting office staff or financial consultants. Also, formal closeout procedures should be established with due dates sufficient to provide the PRDE with adequate and timely financial information in order to comply with the Treasury Department year-end closeout requirements and for financial statements preparation purposes.

Current Status Internal controls were implemented during fiscal year 2021-2022.

Findings Related to the Federal Awards:

FISCAL YEAR 2021

Finding Reference Number **2021-011** **Material Noncompliance and Material Weakness – Procurement and Suspension and Debarment**

U.S. Department of Agriculture (ALN – 10.555) National School Lunch Program (NSLP) – Child Nutrition Cluster
(ALN – 10.559) Summer Food Service Program for Children (Summer Food Service Program (SFSP) – Child Nutrition Cluster

Statement of Condition As part of our audit procedures, we selected a sample of twelve (12) subrecipients files to test internal controls and compliance with the Suspension and Debarment requirement. We review the proposals, contracts and related awards documents kept by the PRDE for each subrecipient on its file. As a result of our tests, we noted that there was no information included on the file related to the SAM verification regarding the suspension and debarment of the subrecipient. Also, there was not on file any certification from the subrecipient regarding the requirement and the contracts (Program Agreements) did not include any contract clause regarding the requirement of the subrecipients and its management to not be suspended or debar as required by the Federal regulations.

Recommendations We recommend that the PRDE establish formal procedures to verify each subrecipient status on SAM prior to evaluation of their proposals for participation in the program. Also, to include the required contract clause regarding the suspension and debarment requirement on the contracts/program agreement. The action has been taking place for the new contracts (FY 2021-2022) as a result of technical assistance visits received from the Federal grantor representatives subsequent to the fiscal year under audit.

continue

(1) AUDIT FINDINGS THAT HAVE BEEN FULLY CORRECTED: – continuation

Questioned Cost	None.
Current Status	As per Program Determination Letter dated October 16, 2023, received from Roberta Hodsdon, Division Director of Child Nutrition Program of the US Department of Education (USDE), considers this finding closed.
Finding Reference Number	2021-014 Material Noncompliance and Material Weakness – Special Test and Provisions – Disbursement to or on Behalf of Students
U.S. Department of Education	(ALN – 84.007) Federal Supplemental Educational Opportunity Grants (FSEOG) – Student Financial Assistance Program Cluster (ALN – 84.033) Federal Work Study Program (FWS) – Student Financial Assistance Program Cluster (ALN – 84.063) Federal Pell Grant Program (PELL) – Student Financial Assistance Program Cluster
Statement of Condition	<p>As part of our audit procedures and from a population of 1,100 students, we selected a sample of sixty-five (65) Pell Award participants and their disbursements for a semester selected during the fiscal year 2020-2021. During the performance of the special test and provision disbursement to or on behalf of student requirement, we examined evidence of payments disbursed to student. While reviewing the disbursements evidence, we noted the following:</p> <ol style="list-style-type: none"> 1. For fourteen (14) students, we noted that the PRDE issued PELL payments for a total amount of \$26,208 after 14 days of the occurrence of the credit balance on the student account. 2. For twenty (20) students, we noted that the PRDE issued SEOG payments for a total amount of \$5,550 after 14 days of the occurrence of the credit balance on the student account. 3. For seventeen (17) students, we noted that the PRDE issued FWS payments for a total amount of \$4,705 after 14 days of the occurrence of the credit balance on the student account.
Recommendations	We recommend to Management establish an aggressive review and formal monitoring of the internal controls established for the PELL, SEOG and FWS payments issuance on time.
Questioned Cost	None.
Current Status	As per Program Determination Letter (Audit Control Number 02-2021-33403) dated October 23, 2023, received from Jennifer Uhler, Branch Chief of the New York/Boston School Participation Division of the US Department of Education (USDE), accepted the PRDE corrective actions and considers this finding closed.

(1) AUDIT FINDINGS THAT HAVE BEEN FULLY CORRECTED: – continuation

Finding Reference Number	2021-015	Material Noncompliance and Material Weakness – Special Test and Provisions – Enrollment Reporting
U.S. Department of Education	(ALN – 84.007) Federal Supplemental Educational Opportunity Grants (FSEOG) – Student Financial Assistance Program Cluster (ALN – 84.033) Federal Work Study Program (FWS) – Student Financial Assistance Program Cluster (ALN – 84.063) Federal Pell Grant Program (PELL) – Student Financial Assistance Program Cluster	
Statement of Condition	As part of our audit procedures we requested to the PRDE a Pell students list from the institution's records that had a reduction or increase in attendance levels, graduated, withdrew, dropped out, or enrolled but never attended during the audit period. From this student list, we would select a sample of students in order to compare the data in the student's NSLDS Enrollment Detail to the students' academic files and other institutional records to verify that the institution is accurately reporting the significant Campus-Level and Program-Level enrollment data elements that ED considers high risk. After we continuously maintained a follow-up of this request, PRDE did not provide the student list on time for us be able to perform our audit procedures for compliance purpose.	
Recommendations	We recommend to the PRDE's management to assign a person to comply with responsibility to gather the information and maintain the Pell Award students list from the institution's records that had a reduction or increase in attendance levels, graduated, withdrew, dropped out, or enrolled but never attended during the audit period.	
Questioned Cost	None.	
Current Status	As per Program Determination Letter (Audit Control Number 02-2021-33403) dated October 23, 2023, received from Jennifer Uhler, Branch Chief of the New York/Boston School Participation Division of the US Department of Education (USDE), accepted the PRDE corrective actions and considers this finding closed.	
Finding Reference Number	2021-016	Noncompliance and Significant Deficiency – Special Test and Provisions – Return of Title IV Funds
U.S. Department of Education	(ALN – 84.007) Federal Supplemental Educational Opportunity Grants (FSEOG) – Student Financial Assistance Program Cluster (ALN – 84.033) Federal Work Study Program (FWS) – Student Financial Assistance Program Cluster (ALN – 84.063) Federal Pell Grant Program (PELL) – Student Financial Assistance Program Cluster	
Statement of Condition	As part of our audit procedures and from a population of seventy-two (72) students who received Title IV assistance and withdrew, dropped out, or never began attendance during the audit period, we selected a sample of seven (7) students to review the return of Title IV funds determinations/calculations to determine conformity with Title IV requirements.	

continue

(1) AUDIT FINDINGS THAT HAVE BEEN FULLY CORRECTED: – continuation

After the performance of our audit test, we found one (1) student for which the total amount of Title IV aid earned by the student was incorrectly calculated. The PRDE staff used an incorrect schedule of attendance to determine the percentage of Title IV Grant Assistance (percentage earned for the period of enrollment completed). The percentage was wrongly calculated at 46.5% and therefore the new student Pell Award amount was incorrectly determined amounting to \$1,475.21. Then when the PRDE compared the new Pell Award amount calculated amounting to \$1,475.21, with the Enrollment Cost Payable by the student amounting to \$1,610, the remaining student debt balance was determined incorrectly amounting to \$134.79. This remaining debt balance was paid by the student. When we recalculated the percentage earned for the period, it was determined that the correct percentage earned was 50.4%, this change in the percentage resulted in the Pell Award amount increase for a total amount of \$1,598.94. When we compared with the initial Enrollment Cost Payable balance of \$1,610, then the new remaining student debt balance was \$11.06 and not \$134.79. Because the student had paid the amount of \$134.79, the PRDE will have to reimburse the student \$123.73.

Recommendations	We recommend the PRDE's management to establish adequate internal control procedures to reviews the recalculation of the Pell award amount determined by the personnel assigned for this purpose before the PRDE would issue the Pell award disbursement. Also we recommend that adequate training is provided to the employees that perform this procedure and monitor their compliance with it.
Questioned Cost	\$123.73.
Current Status	As per Program Determination Letter (Audit Control Number 02-2021-33403) dated October 23, 2023, received from Jennifer Uhler, Branch Chief of the New York/Boston School Participation Division of the US Department of Education (USDE), accepted the PRDE corrective actions and considers this finding closed.

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED:

Findings Related to the Financial Statement:

FISCAL YEAR 2018

Finding Reference Number	2018-001	Noncompliance and Significant Deficiency – Allowable Costs/Costs Principles
Statement of Condition	Management does not have effective controls to monitor payroll records once the payments are processed by the Puerto Rico Treasury Department and the reconciliation of the PRDE with the amounts included in the Statement of Cash Receipts and Cash Disbursements.	
U.S. Department of Education	(ALN – 84.027, 84.173) Special Education Cluster	
Recommendations	We recommend that management strengthen its internal control to ensure that all cash disbursements are adequately supported, and documents retained.	
Questioned Cost	\$301,314	

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

Auditee Comments As per Program Determination Letter (Audit Control Number 02-18-99454) dated July 14, 2022, received from the Office of Special Education and Rehabilitative Services of the US Department of Education (Department), they required the PRDE that within 90 days of that date, to submit evidence of the final evaluation analysis of employee retirement payments transactions, including any reconciliations, as described in the PRDE's April 26, 2021, e-mail. Based on the information submitted and their analysis of the same, the Department reserves the right to request additional corrective action.

Finding Reference Number **2018-002 Noncompliance and Significant Deficiency – Allowable Costs/Costs Principles**

Statement of 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.

U.S. Department of Education (ALN – 84.027) Special Education – Grants to State (IDEA, Part B)

Questioned Cost \$40,239

Current Status As per Program Determination Letter (Audit Control Number 02-18-99454) dated July 14, 2022, received from the Office of Special Education and Rehabilitative Services of the US Department of Education (USDE), they required the PRDE that within 90 days of that date, remit the total questioned costs to the Deputy Assistance Secretary, delegated the authority to perform the functions and duties of the Assistance Secretary of the USDE. This amount is pending to be reimbursed.

FISCAL YEAR 2019

Finding Reference Number **2019-001 Noncompliance and Significant Deficiency – Allowable Costs/Costs Principles**

Statement of Condition Management does not have effective controls to monitor payroll records once the payments are processed by the Puerto Rico Treasury Department and the reconciliation of the PRDE with the amounts included in the Statement of Cash Receipts and Cash Disbursements.

U.S. Department of Education (ALN – 84.027) Special Education – Grants to States (IDEA, Part B) – Special Education Cluster

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

Questioned Cost \$60,631

Current Status Program Determination Letter for ALN 84.027: As per Program Determination Letter (Audit Control Number 02-19-19412) dated July 14, 2022, received from the Office of Special Education and Rehabilitative Services of the US Department of Education (PRDE), they required the PRDE that within 90 days of that date, remit the total questioned costs to the Deputy Assistance Secretary, delegated the authority to perform the functions and duties of the Assistance Secretary of the PRDE. This amount is pending to be reimbursed.

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

FISCAL YEAR 2021

Finding Reference Number **2021-001** **Significant Deficiency**

Statement of Condition As part of our audit processes on the personnel and payroll processes, both for financial purposes and for Federal programs, as applicable, we selected a sample of two hundred thirty (230) employees. The following deficiencies were found:

- 1 The PRDE was unable to provide the personnel file of an employee assigned to the consolidated funds program.

- 2 When evaluating vacation and sick leave balances and accumulations on our payroll tests, we found a discrepancy in how time is accumulated for some employees. Depending on their position, some employees of the PRDE have a seven and a half hour workday, but the KRONOS system used to register hours worked is set up to count 7.3 hours instead of 7.5 hours. The time worked appears as 7.3 on the system, but on the vacation and sick leave calculation the correct 7.5 hours is used. This creates a discrepancy for employees with that workload when we calculated the numbers ourselves as part of our testing to ensure the accuracy of those balances.

Recommendations We recommend the PRDE to validate the computation of licenses and hours worked, so that both consider the periods in the same way. In addition, the PRDE must continue efforts to locate the personnel file that was not provided for audit.

Current Status No final determination has been received from the Federal Awarding Agency.

Finding Reference Number **2021-002** **Material Weakness**

Statement of Condition In the evaluation of financial information of the PRDE we found the following deficiencies:

1. Annually, the PRDE receives funds from the Commonwealth for the operation of the Office for the Improvements of Public Schools (OMEP) as part of the General Fund appropriation and other Special Funding. During our audit procedures of the financial statement of the PRDE, we noted that the PRDE only accounts for the payroll and fringe benefit expenditures appropriated for the fiscal year. The other funds appropriated on the budget approved are transfers to the OMEP separate bank accounts from which payments for other budgeted expenditures related to the OMEP operations are drafted, OMEP maintains separate accounting for these funds and are not subject to the PRDE 's supervision or fiscal oversight. However, for the year under audit the final liquidation of funds not expended by OMEP (amounting to \$1,587,952) was received after the year-end closeout period and was registered on the next fiscal year as a reduction of expenditures of the following year.

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

2. The PRDE provided us with bank statements of separate cash accounts that are managed in two offices within the PRDE. We noted the following deficiencies:
 - a. The PRDE maintains a separate bank account managed by the Special Education program staff. This account is used for a transportation scholarship program for special education students. The PRDE only accounts for the transfer of state funds to the separate bank account on its SIFDE accounting system. There is no reconciliation or accounting of the actual payments made to the participants of the program. During fiscal year 2020-2021, the transfers made to this bank account totaled \$1,664,962, and a total of \$822,583 were used in payments to scholarship beneficiaries. As of June 30, 2021, the bank balance of this account was \$1,344,504 which includes the excess of transfers over payments for the year 2020-2021 and surplus from previous fiscal years.
 - b. The other bank account is managed by the Technical and Occupational Education program staff. This account is used for the deposit of tuition costs of student's enrollment on the Technical Institutions of the PRDE. The transactions of this bank account are not recognized in the SIFDE accounting system of the PRDE. We were only able to obtain a copy of the bank statements for this account, but not information on deposits or payments made with the bank account during the fiscal year. Deposits received in this account during fiscal year 2020-2021 were \$364,701 and disbursements made were \$378,899. As of June 30, 2021 the bank balance of this account was \$205,439.

Recommendations

We recommend the PRDE to maintain adequate records related to the actual expenditures incurred by OMEP and perform monthly monitoring of the financial transactions of the OMEP by the PRDE accounting office staff or financial consultants. Also, formal closeout procedures should be established with due dates sufficient to provide the PRDE with adequate and timely financial information in order to comply with the Puerto Rico Treasury Department year end closeout requirements and for financial statements preparation purposes. In addition, PRDE should implement an accounting procedure to properly recognize and monitor the activities of the two bank accounts which are not registered in the accounting system of PRDE.

Current Status

Internal controls were implemented during fiscal year 2021-2022, for condition number one. Condition number two maintained as a deficiency in the current fiscal year.

Findings Related to the Federal Awards:

FISCAL YEAR 2018

Finding Reference Number	2018-001	Material Noncompliance and Material Weakness – Activities Allowed or Unallowed
U.S. Department of Education	(ALN – 84.027)	Special Education – Grants to States (IDEA, Part B) – Special Education Cluster (ALN – 84.173) Special Education – Preschool Grants (IDEA Preschool) – Special Education Cluster
Statement of Condition		Management does not have effective controls to monitor payroll records once the payments are processed by the Puerto Rico Treasury Department and the reconciliation of the PRDE with the amounts included in the Statement of Cash Receipts and Cash Disbursements.

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

Recommendations	We recommend that management strengthen its internal control to ensure that all cash disbursements are adequately supported and documents retained..
Questioned Cost	\$301,314.
Current Status	As per Program Determination Letter (Audit Control Number 02-18-99454) dated July 14, 2022, received from the Office of Special Education and Rehabilitative Services of the US Department of Education (USDE), they required the PRDE that within 90 days of that date, to submit evidence of the final evaluation analysis of employee retirement payments transactions, including any reconciliations, as described in the PRDE's April 26, 2021 e-mail. Based on the information submitted and their analysis of the same, the USDE reserves the right to request additional corrective action.

FISCAL YEAR 2019

Finding Reference Number 2019-014 Significant Deficiency – Period of Performance

Statement of Condition In two (2) instances of seventy (70) disbursements selected for testing, auditors noted that the liquidation occurred after the allowed time period (90-Day Period); auditors were unable to determine that the period of performance was extended and properly approved/authorized by the Federal government.

U.S. Department of Homeland Security (ALN – 97.036) Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Recommendations Management should emphasize the importance of complying with the criteria stated above.

Questioned Cost \$29,482

Current Status No final determination has been received from the Federal Awarding Agency.

Finding Reference Number 2019-016 Significant Deficiency – Special Tests and Provisions – Documentation of Enrollment Status

Statement of Condition Payments to students in which the original school and actual school are the same. Actual school is the school used by the PRDE as benchmark to identify students as displaced.

U.S. Department of Education (ALN – 84.938C) Temporary Emergency Impact Aid for Displaced Students

Recommendations Management should emphasize the importance of complying with the criteria stated above.

Questioned Cost \$5,093,875

Current Status No final determination has been received from the Federal Awarding Agency.

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

FISCAL YEAR 2020

Finding Reference Number **2020-002** **Significant Deficiency – Activities Allowed or Unallowed**

Statement of Condition As part of our procedures over internal controls and compliance for the allowable activities' requirement, we selected a sample of seventy six (76) disbursement to suppliers made during fiscal year under audit. We noted the following deficiencies:

1. In one (1) instance, we found that the detail of the invoice sent by the service provider did not include in some document's information about the student, to whom the service was provided, which would identify him as participating in the special education program (PEI number). In addition, the invoice was not signed by the service provider.
2. In twenty nine (29) vouchers evaluated, it was found that the invoiced expenses corresponded to both cluster programs (CFDA Nos. 84.027 and 84.173), and the invoices established this. However, the expenses in the system were recognized in grant no. 84.027, not according to the participants attended and invoiced, according to their age.

U.S. Department of Education (ALN – 84.027) Special Education – Grants to State (IDEA, Part B) Cluster
(ALN – 84.173) Special Education – Preschool Grants (IDEA Preschool)

Recommendations We recommend that the PRDE establish standardized written guidelines and train the staff of the Regions to carry out and document the reviews and approvals of services. In addition, the personnel must be instructed to account for the budget and expense of therapy and related services, according to the enrollment of students who will attend, in accordance with the program that applies within the cluster.

Questioned Cost None

Current Status As per Program Determination Letter (Audit Control Number 02-20-19329) dated October 21, 2022, received from Katherine Neas, Deputy Assistant Secretary, delegated the authority to perform the functions and duties of the Assistant Secretary for the Office of Special Education and Rehabilitative Services of the US Department of Education (USDE), they required that within 90 days of the received of the PDL, the PRDE must submit evidence to OSEP that demonstrates that the PRDE maintains a system for processing expenses for allowable purposes in accordance with the OMB Uniform Guidance. Documentation should include a sample of invoices with corresponding AUPs, policies and procedures, and any additional guidance documents. The PRDE has disseminated to personnel regarding the handling and processing of invoices.

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

Finding Reference Number **2020-003 Material Weakness – Activities Allowed or Unallowed // Eligibility**

Statement of Condition

The following deficiencies were found:

1. The calculation of COA amount was incorrectly determined based in the student status as Dependent or Independent. We found three (3) students Independent with a COA amount assigned for dependent students. In these cases this error does not affect the assistance amount awarded to the students.
2. The calculation of COA amount was not documented for the 2nd Semester, based in the student enrollment. We found five (5) participants without COA documentation (Calculation).
3. The Student file does not include the SEOG documentation related to the calculation of the award and disbursement amount for nineteen (19) students.
4. The Financial Assistance Control Card ("Tarjeta Control de Asistencia Económica") established as the control for showing and establishing all the Financial Assistance awarded to the students was not signed by the Financial Aid Officer for fourteen (14) students.
5. The Official Enrollment was not signed by the Registrar for nine (9) students.
6. The Student file does not have the Pell Award documentation for the 1st Semester or the 2nd Semester for eight (8) students.
7. The Financial Assistance Control Card ("Tarjeta Control de Asistencia Económica") established as the control for showing and establishing all the Financial Assistance awarded to the students was not included in the student file for two (2) students.
8. The PRDE incorrectly documented the Cost of Attendance (COA) amounting to \$4,190 for three (3) students in the student files. The correct COA used to determine the student award amount was greater than the COA documented, and this misled the auditor recalculation of the Pell Award.

U.S. Department of Education

(ALN – 84.007) Federal Supplemental Educational Opportunity Grants (FSEOG) (Student)
(ALN – 84.033) Federal Work-Study Program (FWS)
(ALN – 84.063) Federal Pell Grant Program (Pell)

Recommendations

We recommend the PRDE's management to review, document and strengthen its internal control procedures in order to provide adequate evidence to ascertain that the procedures are performed as required. Also we recommend that adequate training is provided to the employees that perform those procedures and monitor the compliance with such internal control procedures.

Questioned Cost

None

Current Status

No final determination has been received from the Federal Awarding Agency.

Finding Reference Number

2020-004 Material Weakness – Allowable Costs/Costs Principles

Statement of Condition

The following deficiencies were found:

1. The PRDE was unable to provide evidence of employee leave accrual, adjustments, and utilization for the month of September 2019.
2. For the Special Education-Grants to States Program, from the selected sample of sixty (60) employees paid in the second half of September 2019, we found that in one instance, the employee had an unpaid leave effective from August 1, 2019, and received full payment of \$1,142 for the fortnight ended on September 27, 2019.

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

3. In the sample of internal controls over financial reporting, from the selected sample of sixty (60) employees paid in the second half of September 2019, we found that an employee had an effective leave without pay since May 1, 2019, and received full payment of \$623.53 for the fortnight ended on September 27, 2019.
4. In relation to the program Career and Technical Education -- Basic Grants to States, we selected a journal entry related to payroll expenditures. In the database provided, we noted payroll expenditures amounting to \$67,364.32 that did not belong to the program allowable cost. We confirmed that these administrative expenditures should have been accounted for through the Special Education-Grants to States Program (IDEA, Part B) ALN 84.027. These transactions were prospectively adjusted by transferring those costs to this program.

U.S. Department of Education

(ALN – 84.010) Title I Grants to Local Educational Agencies Cluster
(ALNs – 84.027; 84.173) Special Education Cluster (IDEA)
(ALN – 84.048) Career and Technical Education – Basis Grants to States
(ALN – 84.287) Twenty-First Century Community Learning Centers
(ALN – 84.365) English Language Acquisition State Grants
(ALN – 84.367) Supporting Effective Instruction State Grants
(ALN – 84.424) Student Support and Academic Enrichment Program

Recommendations

We recommend the PRDE design and implement adequate internal controls and payroll processes that will identify in real-time or sooner any incorrect payroll payment made.

Questioned Cost

Undetermined

Current Status

Program Determination Letter for ALNs 84.027 and 84.173: As per Program Determination Letter (Audit Control Number 02-20-19329) dated October 18, 2022, received from the Office of Special Education and Rehabilitative Services of the US Department of Education (USDE), they required the PRDE that within 90 days of the received of the PDL, must submit evidence to OSEP that demonstrates internal controls are currently in place to identify any incorrect payroll payment in real time or sooner and mitigate errors in processing payroll activities. Specifically, the PRDE must submit to OSEP: 1) a copy of the guidelines regarding its procedures for conducting a biweekly salary adjustment as described in its April 20, 2022, response to OSEP; and 2) documentation demonstrating adjustments were made in cases where the employee was improperly paid \$1,142 for leave that the employee did not have available, and \$623.53 for the employee who was on a leave without pay status as described in the auditors' finding.

Finding Reference Number

2020-005 Material Noncompliance and Material Weakness – Allowable Costs/Costs Principles

Statement of Condition

Deficiencies in payments to employees for hours not worked, and payroll charge to incorrect Federal programs.

U.S. Department of Education

(ALN – 84.010) Title I Grants to Local Educational Agencies Cluster
(ALN – 84.027) Special Education Cluster (IDEA)
(ALN – 84.048) Career and Technical Education – Basis Grants to States
(ALN – 84.367) Supporting Effective Instruction State Grants

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

Recommendations We recommend the PRDE design and implement adequate internal controls and payroll processes that will identify in real-time or sooner any incorrect payroll payment made. In relation to the deficiency related to the suppliers, a validation of all payments to be processed should be made in order to assure that no duplicate payments are made.

Questioned Cost Identified questioned costs are \$96,948, for which were identified as employees that did not work for the Federal program. Other amount may be unallowed, if the PRDE can identify the portion of Federal funding incurred in Schoolwide, Consolidated and from prior years.

Current Status Program Determination Letter for ALN 84.027: As per Program Determination Letter (Audit Control Number 02-20-19329) dated October 21, 2022, received from the Office of Special Education and Rehabilitative Services of the US Department of Education (USDE), they required the PRDE that within 90 days of the received of the PDL, must remit a total of \$63,542 to the PRDE representing the amounts of duplicate payments to contractors and employees during the FFY 2020 grant award period.

Finding Reference Number **2020-006 Material Noncompliance and Material Weakness – Eligibility**

Statement of Condition As part of our audit procedures, we selected a sample of ten (10) subrecipients files to test internal controls and compliance with the Subrecipient Eligibility requirement. As a result of our tests, we noted the following exceptions:

1. For one (1) subrecipient file tested, the Contract (Program Agreement) was not prepared during the fiscal year (See Finding Reference Number 2020-011). The first contract was signed on September 23, 2020.
2. During the fiscal year under audit from July 1, 2019 to June 30, 2020 a total of \$112,953 program funds were disbursed to this subrecipient without a contract/agreement being signed between the State Agency (PRDE) and the subrecipient.

U.S. Department of Agriculture (ALN – 10.555) National School Lunch Program
(ALN – 10.559) Summer Food Service Program for Children

Recommendations We recommend that the PRDE follows is own contract / agreement procedures and assured that program funds are only disbursed to subrecipients with a valid signed contract / agreement.

Questioned Cost None

Current Status No final determination has been received from the Federal Awarding Agency.

Finding Reference Number **2020-007 Significant Deficiency – Equipment and Real Property Management**

Statement of Condition As part of our procedures regarding equipment requirements, we request an inventory of equipment from the PRDE as of June 30, 2020. The inventory detail submitted does not present any disposition of assets, nor are there any assets identified that have been affected by the earthquakes that occurred between December 2019 and January 2020, which damaged school structures. In addition, the evidence submitted as the inventory taking is an Excel sheet that presents total columns of equipment in the system, equipment not located, equipment added, change in custodian, and equipment added manually. This Excel sheet does not indicate the inventory taking date or the person who validates the inventory taking.

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

U.S. Department of Education (ALN – 84.027) Special Education – Grants to State (IDEA, Part B) Cluster
(ALN – 84.173) Special Education – Preschool Grants (IDEA Preschool)

Recommendations We recommend that the PRDE carry out an inventory and reconcile it with the records maintained by the PRDE. In addition, all the items that are in the schools that were affected by the earthquakes should be identified in the equipment detail, so that they do not appear as being in use or active.

Questioned Cost Undetermined.

Current Status As per Program Determination Letter (Audit Control Number 02-20-19329) dated October 21, 2022, received from the Office of Special Education and Rehabilitative Services of the US PRDE of Education (USDE), they required the PRDE that within 90 days of the received of the PDL, must:

1. Carry out an inventory and reconcile the inventory with the records maintained by the PRDE and submit a report to OSEP demonstrating the inventory has been completed and the outcome of that inventory;
2. Identify equipment in the schools affected by the earthquakes so that they do not appear as being in use or active; and
3. Provide OSEP an assurance that it has policies and procedures in effect for managing equipment, that meet the requirements of 2 C.F.R. § 200.313(d).

Finding Reference Number **2020-008 Noncompliance and Significant Deficiency – Matching, Level of Effort, Earmarking**

Statement of Condition During our audits test of the Maintenance of effort reports, we noted that the aggregate expenditures for FY 2017 were 82% of the total aggregate expenditures of FY 2016. Therefore, the percentage is below the 90% compliance requirement for the Maintenance of Effort for FY 2019.

U.S. Department of Education (ALN – 84.002) Adult Education - Basic Grants to States

Recommendations We recommend that formal finance and fiscal staff be assigned to the Adult Education State Grant program specifically. The PRDE have fiscal officers assigned to multiple federal programs and sensitive financial information can be missed for certain requirements.

Questioned Cost None

Current Status No final determination has been received from the Federal Awarding Agency.

Finding Reference Number **2020-009 Noncompliance and Significant Deficiency – Matching, Level of Effort, Earmarking**

Statement of Condition During our audits test of the Maintenance of Effort reports, we noted that the aggregate expenditures for FY 2020 were \$19,309,196; the required expenditure to comply with the Maintenance of Effort for FY 2020 per the PRDE determination based on program requirements was \$19,649,680. Therefore, the PRDE did not reach the required expenditure level to comply with the requirement.

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

National Endowment of the Humanities	(ALN – 45.310) Grants to States
Recommendations	We recommend that a formal finance and fiscal staff be assigned to the Grants to States program specifically. The PRDE has fiscal officers assigned to multiple Federal programs and sensitive financial information can be missed for certain requirements.
Questioned Cost	None
Current Status	No final determination has been received from the Federal Awarding Agency.
Finding Reference Number	2020-010 Material Noncompliance and Material Weakness – Procurement and Suspension and Debarment
Statement of Condition	<p>As part of our audit procedures on internal controls and compliance related to procurement of the IDEA Cluster program, we found the following deficiencies:</p> <ol style="list-style-type: none"> 1. In the selected sample of disbursements of seventy-six (76) vouchers, the PRDE did not provide evidence on the procurement process for thirty-seven (37) disbursements. In two (2) quotation processes submitted, no evidence was found in the file on the "no bid" of the other bidders who were asked for quote. 2. In the interviews conducted for the procurement process for therapy services and other related services, we found that, although an adequate procurement process is performed and scores are awarded in the evaluations, providers that did not meet the required minimum score are allowed to hold a meeting and be able to resubmit the proposal. This process is determined by the Director of Monitoring of Evaluations and Related Services, however, the "Guide for the selection of professional services that are paid for with federal funds" establishes that the determination to request a "best and final" offer must be requested by the Evaluation Committee. 3. The PRDE maintains different procurement processes, according to the services or goods to be acquired. Specifically, for the proposals for therapy services and related services, they worked under the MIPE program, and this process is not contemplated in the procedure manuals or guidelines that the PRDE has.
U.S. Department of Education	(ALN – 84.027) Special Education – Grants to State (IDEA, Part B) Cluster (ALN – 84.173) Special Education – Preschool Grants (IDEA Preschool)
Recommendations	We recommend that the PRDE establishes updated regulations that address the different realities of the PRDE. In addition, we recommend that recurring purchases can be projected to maximize procurement processes, and avoid splitting purchases, which are more expensive for the PRDE.
Questioned Cost	None
Auditee Comments	As per Program Determination Letter (Audit Control Number 02-20-19329) dated October 21, 2022, received from the Office of Special Education and Rehabilitative Services of the US Department of Education (USDE), they required the PRDE that within 90 days of the received of the PDL, must provide OSEP with a copy of its policies and procedures regarding its procurement processes for various circumstances, particularly the processes for acquiring related service providers for children with disabilities. The PRDE must ensure these policies and procedures align with its State-established guidelines for procurement.

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

Finding Reference Number **2020-011 Material Noncompliance and Material Weakness – Procurement and Suspension and Debarment**

Statement of Condition As part of our audit procedures, we selected a sample of ten (10) subrecipients files to test internal controls and compliance with the Suspension and Debarment requirement. We review the proposals, contracts and related awards documents kept by the PRDE for each subrecipient on its file. As a result of our tests, we noted the following exceptions:

1. For one (1) subrecipient file tested, the Contract (Program Agreement) was not prepared during the fiscal year (See Finding Reference Number 2020-006). The first contract was signed on September 23, 2020.
2. For the other nine (9) subrecipient files tests and the one (1) detailed above, there was no information included on the file related to the SAM verification regarding the suspension and debarment of the subrecipient. Also, there was not on file any certification from the subrecipient regarding the requirement and the contracts (Program Agreements) did not include any contract clause regarding the requirement of the subrecipients and its management to not be suspended or debarred as required by the Federal regulations.

U.S. Department of Agriculture (ALN – 10.555) National School Lunch Program
(ALN – 10.559) Summer Food Service Program for Children

Recommendations We recommend that the PRDE establishes updated regulations that address the different realities of the PRDE. In addition, we recommend that recurring purchases can be projected to maximize procurement processes, and avoid splitting purchases, which are more expensive for the PRDE.

Questioned Cost None

Current Status No final determination has been received from the Federal Awarding Agency.

Finding Reference Number **2020-012 Material Weakness – Reporting**

Statement of Condition As part of our audit procedures, we selected a sample of ten (10) subrecipients files to test internal controls and compliance with the Suspension and Debarment requirement. We review the proposals, contracts and related awards documents kept by the PRDE for each subrecipient on its file. As a result of our tests, we noted the following exceptions:

1. The PRDE relies on Microsoft's Excel spreadsheets to account for program expenditures and receipts for the report preparation. No formal procedures were in place to reconcile the information on the program reports and Excel files with the official financial records (SIFDE).
2. The PRDE did not recognize under the program accounting codes on SIFDE all transactions reported and approved by the pass-through entity. During the audit, additional procedures and reports were needed to provide sufficient audit evidence related to the correct expenditures charged to the program and reported on the financial reports.
3. The Excel spreadsheets used by the PRDE were developed and maintained by third-parties (consultants) and the information was not kept by the program or financial staff of the PRDE.

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

U.S. Department of Homeland Security

(ALN – 97.036) Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Recommendations

We recommend that the PRDE establishes a division within its Federal Program Office to manage the program awards. Also, adequate training on Federal program compliance requirements and reporting should be provided to the program staff. Also, a formal process must be established for reconciling the official accounting record (SIFDE) with the Federal program reports.

Questioned Cost

None

Current Status

No final determination has been received from the Federal Awarding Agency.

Finding Reference Number

2020-013 Significant Deficiency – Reporting

Statement of Condition

During our audit procedures of the Schedule of Expenditures of Federal Awards (SEFA) prepared by the PRDE we identified material misstatements related to the programs reported in the schedule that cause changes to the initial determination of type A programs and the mayor program determination. Adjustments made to misclassified expenditures resulted on an additional program being determined as a major program after the necessary adjustments were posted by the PRDE.

Also, we noted that the PRDE does not correctly account for funds pass-through subrecipients on the SEFA. Certain transfers from one operating unit of the PRDE to other operating units/office within the PRDE are included in the SEFA as funds pass-through to subrecipients. Also, funds used by certain operating units of the PRDE (schools) are included in the totals of the pass-through transfer column of the SEFA.

Assistance Listing Numbers

All Federal Programs

Recommendations

We recommend the PRDE to maintain adequate records related to the Federal programs in order to properly identify the Federal programs/transactions when the SEFA is prepared. The PRDE must perform a regular fiscal monitoring over the Federal programs transactions in order to provide reasonable assurance that all Federal programs/transactions are properly recorded and included in the SEFA. In addition, PRDE must establish formal instructions to uniform the expenditure account use to record the transfers to subrecipient entities on its' general ledger and for SEFA preparation purposes.

Questioned Cost

None

Auditee Comments

Program Determination Letter for ALNs 84.027 and 84.173: As per Program Determination Letter (Audit Control Number 02-20-19329) dated October 21, 2022, received from the Office of Special Education and Rehabilitative Services of the US Department of Education (USDE), they required the PRDE that within 90 days of the received of the PDL, must provide OSEP with documentation demonstrating PRDE: (1) has systems in place to maintain adequate records related to the Federal programs/transactions when preparing the SEFA; and (2) performs regular fiscal monitoring for reasonable assurance that all Federal programs/transactions are properly recorded and included in the SEFA as required under 2 C.C.R. § 200.510.

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

Finding Reference Number **2020-014** **Material Noncompliance and Material Weakness – Special Tests and Provisions – Disbursement to or on Behalf of Students**

Statement of Condition The following deficiencies were found:

1. The PRDE incorrectly documented the Cost of Attendance (COA) amounting to \$4,190 for three (3) students in the student files. The correct COA used to determine the student award amount was greater than the COA documented, and this misled the auditor recalculation of the Pell Award.
2. During the performance of the special test and provision disbursement to or on behalf of student, we selected a sample of sixty-five (65) students and examined evidence of payments disbursed to student. While reviewing the disbursements evidence we noted the following:
 - a. For one (1) student, we noted that it was included in the SEOG Awards Student List for the 2nd Semester 2019-2020, when there was a determination by the PRDE to not issue a SEOG payment in favor of such student.
 - b. For twenty-three (23) students, we noted that the PRDE issued PELL payments for a total amount of \$50,156 after 14 days of the occurrence of the credit balance on the student account.
 - c. For eleven (11) students, we noted that the PRDE issued SEOG payments for a total amount of \$1,411 after 14 days of the occurrence of the credit balance on the student account.
 - d. We found ten (10) payments issued after more than a month for nine (9) student wages earned when the work was performed.

U.S. Department of Education (ALN – 84.007) Federal Supplemental Educational Opportunity Grants (FSEOG) (Student Assistance Cluster)
(ALN – 84.033) Federal Work-Study Program (FWS)
(ALN – 84.033) Federal Pell Grant Program (Pell)

Recommendations We recommend to Management establish an aggressive review and formal monitoring of the internal controls established for the preparation of the accurate SFA reports, procedures related to the COA determination, and the PELL and SEOG payments issued on time.

Questioned Cost None

Current Status No final determination has been received from the Federal Awarding Agency.

Finding Reference Number **2020-016** **Noncompliance and Significant Deficiency – Subrecipient Monitoring**

Statement of Condition As part of our audit procedures, we obtained the list of active subrecipients and subrecipients that received funds during the fiscal year 2019-2020, requested the risk assessment documentation, on site monitoring visits, and documentation regarding the Single Audit report receipt, evaluation and management decisions process. We selected a sample of eight (8) subrecipients to test compliance with internal control policies and compliance with the subrecipient monitoring requirement. We noted the following deficiency during our tests:

1. On one (1) subrecipient we noted that the Schedule of Expenditures of Federal Awards did not include the expenditures of the program for the years ended 6/30/2018, 6/30/2019 nor 6/30/2020. Therefore, the program was not included within the scope of the subrecipient audit of Federal programs, and the PRDE staff did not make available their evaluation for this subrecipient.

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

U.S. Department of Education	(ALN – 84.002) Adult Education – Basic Grants to States
Recommendations	We recommend that adequate training be provided to the program staff in charge of the monitoring functions of the program in order to comply with the on-site monitoring visits and the correct evaluation of the audit reports that the subrecipients must submit and be evaluated to comply with this requirement.
Questioned Cost	None
Current Status	No final determination has been received from the Federal Awarding Agency.
Finding Reference Number	2020-017 Material Noncompliance and Material Weakness – Subrecipient Monitoring
Statement of Condition	<p>As part of our audit procedures, we obtained a copy of the worksheet for the Single Audit follow-up ("Hoja de Trabajo de Seguimiento de la Auditoria Unica") for the year 2019-2020. We noted the following deficiencies on the worksheet:</p> <ol style="list-style-type: none"> 1. For one (1) subrecipient, Single Audit Report received at FAC date was noted as 8/7/2019; however, the subrecipient applicable fiscal year end was correctly noted at 9/30/2019. We reviewed the FAC and the correct date of the report receipt at the FAC was 08/07/2020. 2. For three (3) subrecipients, the worksheet did not include the information regarding if there were findings for the program. There was no information included on the relevant cells of the worksheet. No information was available on the worksheet to determine if there were audit findings that needed follow-up, CAPs or management decisions. 3. For three (3) subrecipients, the date of issuance of a management decision ("Decision Administrativa") was June 10, 2019; however, the audit report receive date at the FAC were 7/24/2020, 3/21/2020 and 3/18/2020, respectively. The accountant that prepares the worksheet indicated that the information was not updated from the previous year worksheet. 4. Two (2) subrecipients selected for test purposes were not included on the worksheet. We reviewed the information for the two (2) subrecipients on the FAC and noted that the reports were received at the FAC on 3/30/2020 and 5/6/2020. However, these entities were not included on the control worksheet and their SAR was not evaluated prior to our tests. 5. At the moment of our tests, we requested a copy of the worksheet for our records and to perform our tests. The accountant that maintains the control worksheet kept the file on a USB bracelet tied to a personal backpack kept in his work space.
U.S. Department of Agriculture	(ALN – 10.558) Child and Adult Care Food Program
Recommendations	We recommend that the current procedure is amended to include the requirement for the subrecipients to make a formal notification to the PRDE's program staff the Single Audit is applicable or not at the end of each fiscal year when funds were pass-through by the PRDE. Also, to formally notify the PRDE staff when the reports are submitted to the FAC. Internally, the accountant must receive a list of the contracts/grants awarded to subrecipients during each fiscal year in order to keep the control worksheet complete.
Questioned Cost	None
Current Status	No final determination has been received from the Federal Awarding Agency.

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

Finding Reference Number	2020-018	Material Noncompliance and Material Weakness – Subrecipient Monitoring
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Statement of Condition	<p>As part of our audit procedures, we obtained a copy of the worksheet for the Single Audit follow-up ("Hoja de Trabajo de Seguimiento de la Auditoria Unica") for the year 2019-2020. We noted the following deficiencies on the worksheet:</p>
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1. For one (1) subrecipient, Single Audit Report received at FAC date was noted as 8/7/2019; however, the subrecipient applicable fiscal year end was correctly noted at 9/30/2019. We reviewed the FAC and the correct date of the report receipt at the FAC was 08/07/2020.
2. For three (3) subrecipients, the worksheet did not include the information regarding if there were findings for the program. There was no information included on the relevant cells of the worksheet. No information was available on the worksheet to determine if there were audit findings that needed follow-up, CAPs or management decisions.
3. For three (3) subrecipients, the date of issuance of a management decision ("Decision Administrativa") was June 10, 2019; however, the audit report receive date at the FAC were 7/24/2020, 3/21/2020 and 3/18/2020, respectively. The accountant that prepares the worksheet indicated that the information was not updated from the previous year worksheet.

From the three (3) subrecipients subject to the Single Audit, we noted the following deficiencies on the information received and the evaluation made by the PRDE staff:

- a. One (1) subrecipient only sends to the PRDE a copy of the Auditor's Opinion on the Financial Statements. No other information was received from the subrecipients. There were no financial statements, no Schedule of Expenditures of Federal Awards, no Schedule of Findings and Questioned Costs, among other required information. The PRDE staff evaluation indicated that the report complies with the required information. We obtained a copy of the Single Audit Report for the year ended 6/30/2020 of the subrecipient from the FAC web page and noted that the Schedule of Expenditures of Federal Awards from the subrecipient submission did not include the Program's expenditure. Therefore, the program was not included within the scope of the subrecipient audit of Federal programs, this was not noted on the report evaluation made by the PRDE staff and no further actions were required to correct or clarify the lack of information on the audit report of the subrecipient.
- b. A second subrecipient sent a copy of the Single Audit report and requested information. We noted that the Schedule of Expenditures of Federal Awards did not include the expenditures of the program for the year ended 6/30/2020. Therefore, the program was not included within the scope of the subrecipient audit of Federal programs, this was not noted on the report evaluation made by the PRDE staff. The PRDE staff evaluation indicated that the subrecipient complied with the requirement and no further actions were required to correct or clarify the lack of information on the audit report of the subrecipient.

National Endowment of the Humanities

(ALN – 45.310) Grants to States

Recommendations

We recommend that adequate training be provided to the program staff in charge of the monitoring functions of the program in order to comply with the on-site monitoring visits and the correct evaluation of the audit reports that the subrecipients must submit and be evaluated to comply with this requirement.

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

Questioned Cost None

Current Status No final determination has been received from the Federal Awarding Agency.

FISCAL YEAR 2021

Finding Reference Number 2021-003 **Material Noncompliance and Material Weakness – Activities Allowed or Unallowed**

U.S. Treasury Department (ALN – 21.019) Coronavirus Relief Fund

Statement of Condition During our audit procedures regarding activities allowed or unallowed of the program, we were provided with a detail of the projects carried out with the funds. One (1) of the projects was the one contemplated in PP-2021-17931 dated 11/17/2020, where funds were requested for the disinfection of schools as part of the resumption of work activities and in preparation for the return of teachers and students.

This project was worked on by the Office for the Improvement of Public Schools (OMEP) with a total budget of \$7,888,241.50. When we requested the disbursements details supporting the \$7,888,241.50 we were provided with a list of paid invoices totaling that amount. As part of our tests, we selected a sample of these invoices and when evaluating them, we noticed the following situations:

1. In eight (8) of the invoices evaluated, the supporting documents provided for evaluation did not agree with the information in the detail of the invoices. They have differences in invoice number and amount, voucher number and amount, check number and amount, payment date and services provided.
2. In two (2) of the invoices, the name of the school described as having received the services in the supporting documents is not the same school that is presented in the detail of the invoices.
3. In one (1) of the invoices, the description included in the invoice detail does not match the services described in the supporting documents.
4. Two (2) of the invoices evaluated had to do with disinfection related to the voting centers related to the primaries held in Puerto Rico in the month of August 2020.

Recommendations We recommend that the PRDE establish adequate and effective internal controls to monitor the use of the funds assigned to OMEP. In addition, we recommend that OMEP be provided with the appropriate training for the management of Federal funds and the importance that the supporting documentation regarding the expenses incurred must be correct and in accordance with the requirements of the Federal program.

Questioned Cost Undetermined.

Current Status No final determination has been received from the Federal Awarding Agency.

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

Finding Reference Number	2021-004	Material Noncompliance and Material Weakness – Activities Allowed or Unallowed // Allowable Costs/Costs Principles
U.S. Department of Education	(ALN – 84.027) Special Education – Grants to States (IDEA, Part B) – Special Education Cluster (ALN – 84.173) Special Education – Preschool Grants (IDEA Preschool) – Special Education Cluster	
Statement of Condition	<p>As part of our procedures over internal controls and compliance with the allowable activities' requirement, we selected a sample of eighty one (81) disbursements to suppliers made during the fiscal year under audit. We noted the following deficiencies:</p> <ol style="list-style-type: none"> 1. In eight (8) instances, we were not provided evidence of the need for the service or of who required the contracted service. 2. In a disbursement for the purchase of some materials described as "5-set prime logic board", the receiving reports provided stated "4-set prime logic board" in the description. In addition, 542 sets were purchased, but there is only evidence for delivery of 316 sets. 3. In two (2) vouchers evaluated, no evidence of receipt of the equipment was provided. 4. In six (6) vouchers evaluated related to therapy and evaluation services, the detail of the charges for each participant presented adjustments which were not considered when the payments were made and no justification or comment was provided. In addition, in two (2) disbursements, we were not presented with evidence of service certification, and the invoices were adjusted without any comments in the system. 5. In three (3) disbursements related to training services for Special Education Program personnel, in one (1) disbursement the attendance of forty (40) people was billed, but according to the information provided, only the attendance of thirty-nine (39) people was validated and there was no evidence of adjustment to the invoice. In the other two (2) disbursements, we were not presented with evidence of participant attendance. 6. In one (1) disbursement related to professional services, the contractor's invoice indicates that seventy-eight (78) hours incurred in the month of August that had not been invoiced are included in the September invoice. No evidence was presented of the detail of the work performed corresponding to the seventy-eight (78) hours billed. 7. In one (1) disbursement related to a workshop for teachers, materials costs are included in the amount of \$253,588. According to the proposal and contract, the cost of materials would not exceed \$118,925.30. Material costs were included in the invoice and were not included in the proposal. 8. In twelve (12) vouchers evaluated, it was found that the invoiced expenses corresponded to both cluster programs (ALN –84.027 and ALN –84.173), and the invoices established this. However, the expenses in the system were recognized in grant 84.027, not according to the participants attended and invoiced, according to their age. 	
Recommendations	<p>We recommend that the PRDE establish adequate and effective internal controls to monitor the use of the funds assigned to OMEP. In addition, we recommend that OMEP be provided with the appropriate training for the management of Federal funds and the importance that the supporting documentation regarding the expenses incurred must be correct and in accordance with the requirements of the Federal program.</p>	
Questioned Cost	Undetermined.	
Current Status	No final determination has been received from the Federal Awarding Agency.	

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

Finding Reference Number	2021-005	Material Noncompliance and Material Weakness – Allowable Costs/Costs Principles
U.S. Department of Education	(ALN – 84.010) Grants to Local Educational Agencies (Title I, Part A of the ESEA)	
Statement of Condition	As part of our audit procedures over internal controls and compliance with the allowable activities' requirement, we selected a sample of forty three (43) disbursements to suppliers made during the fiscal year under audit. In one (1) instance, we found that PRDE issued a payment for the total amount of the contract with the supplier and not for the amount of the invoice received. When the supplier received the overpayment, he returned the difference to the PRDE.	
Recommendations	We recommend that the PRDE has to reassess the internal controls that validate the invoice with the system.	
Questioned Cost	Undetermined.	
Current Status	No final determination has been received from the Federal Awarding Agency.	

Finding Reference Number	2021-006	Material Noncompliance and Material Weakness – Allowable Costs/Costs Principles
U.S. Department of Education	(ALN – 84.002) Adult Education – Basic Grants to States (ALN – 84.048) Career and Technical Education – Basic Grants to States (Perkins V) (ALN – 84.425D) COVID-19 Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund (ALN – 84.938A) Hurricane Education Recovery – Immediate Aid to Restart School Operations (Restart) Program	
Statement of Condition	On our internal control and compliance tests of disbursements of the Consolidated Funds (Administration SEA/LEA), we selected a payment of professional services of Third Party Fiduciary Agent Services ("TPFA") through voucher number 01023341 date June 1, 2021 for \$3,143,750. During our test, we noted the following conditions: <ol style="list-style-type: none"> 1. Reasonableness of costs: The payment made to the vendor is a "flat fee" monthly payment agreed to in the professional service contract. Although the vendor invoice includes a detail of hours of service and expense summary, this information is solely for "informational purposes" and not to be taken into account for the actual invoice payment process. The monthly payment amount only consideration is the agreed upon "flat fee". In the invoice evaluated on voucher 01023341, the vendor includes a total hours incurred of 2,166.75 with price per hour range from \$175 to \$700. Also, the invoice includes an expense summary of \$1,066,883.68. When we compared the actual payment to the hours incurred and related expenditures, we noted an unreasonable charge to the PRDE and its Federal funds based upon the payment being made versus the actual service hours/expenses included on the invoice. 	

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

2. Independent Price Estimate: As part of our test, we reviewed the independent costs estimate prepared by the PRDE evaluation committee of the RFP and noted that per hour price ranges were from \$65 to \$352; however the vendors proposal and invoice include per hour ranges starting at \$175 to \$750, rates which are significantly higher than the estimate made by the PRDE. We did not find any information about the PRDE requesting adjustments to the hourly rates as part of the contract process. As the only proposal that reached the costs evaluation phase of the RFP process, a total of 0 points was awarded on the evaluation but no further actions were documented regarding the significant gap between the independent costs estimate versus the vendors proposed hourly rates.

3. Allocability – the payment made was distributed among several Federal programs and state funds as follows:

State Funds 51% (\$1,608,761), Consolidated Funds (SEA/LEA) 37%, (\$1,157,253), Elementary and Secondary School Emergency Relief Fund 4% (\$130,930), Hurricane Education Recovery – Immediate Aid to Restart School Operations (Restart) Program 4% (\$152,144), Career and Technical Education – Basic Grants to States (Perkins V) 2% (\$57,672), and Adult Education – Basic Grants to States 1% (\$36,990). The PRDE staff could not provide the basis used to distribute the cost between the different programs and state funds in accordance with the benefit obtained from the costs incurred. The allocations were made based on availability of funds on each program's budget, the contract does not include any basis for the allocation of costs nor was there any basis for the allocation included on the payment documentation.

A second payment made to the contractor during the fiscal year was allocated 100% to state funds showing no consistency in the treatment of the cost allocation.

Recommendations

We recommend the PRDE revise the contract terms to include a reconciliation of total hours and rates to adjust the payments made to the vendor before the contract expiration. Also we recommend that the PRDE should request that adequate supporting evidence from the vendors be presented for any expenses to be reimbursed by the PRDE. Also, we recommend the PRDE to develop an adequate review of the vendors invoice to properly identify the actual hours of services that benefited the Federal programs so a correct allocation of the costs incurred can be made within Federal programs and state funds.

Questioned Cost

Undetermined.

Current Status

No final determination has been received from the Federal Awarding Agency.

Finding Reference Number

2021-007 Material Noncompliance and Material Weakness – Allowable Costs/Costs Principles

U.S. Department of Agriculture

(ALN – 10.555) National School Lunch Program (NSLO) – Child Nutrition Cluster
(ALN – 10.559) Summer Food Service Program for Children (SFSP) – Child Nutrition Cluster
(ALN – 10.560) State Administrative Expenses for Child Nutrition

U.S. Department of Education

(ALN – 84.010) Grants to Local Educational Agencies (Title I, Part A of the ESEA)
(ALN – 84.027) Special Education – Grants to States (IDEA, Part B)
(ALN – 84.367) Supporting Effective Instruction State Grants
(ALN – 84.425D) COVID-19 Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

Statement of Condition As part of our audit procedures and interviews over financial reporting, we obtained a detail of accounts receivable related to duplicate payments or incorrect payments made for payroll transactions in the amount of \$4,665,820. Invoices issued during the fiscal year ended June 30, 2021 balance, were distributed as Federal and state, as follows:

CFDA Number	Program Description	Transaction Balance
10.555 / 10.559	Child Nutrition Cluster	\$ 85,875
10.560	State Administrative Expenses for Child Nutrition	1,992
84.010	Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	55,739
84.027	Special Education - Grants to States (IDEA, Part B)	40,200
84.367	Supporting Effective Instruction State Grants	4,004
84.425D	COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Student Aid Portion	19,079
Not Determined	Schoolwide Program (State and Federal Funds)	1,904,944
Not Determined	Consolidated Funds (State and Federal Funds)	26,668
Not Applicable	State Funds	2,527,319
Total Invoices Issued Balance at 06/30/2021		<u>\$ 4,665,820</u>

We selected ten (10) employees to determine the reason for the overpayment. We noted the following conditions: we found that an employee who had died in March 2019 continued to collect his salary until May 2021. In the other nine (9) instances are related to resignations from 2011 to 2019, which continued to be paid after the resignation became effective.

Recommendations We recommend the PRDE design and implement adequate internal controls and payroll processes that will identify in real – time or sooner any incorrect payroll payment made.

Questioned Cost Identified questioned costs are \$206,889, for which were identified as employees that didn't work for the Federal program. Other amounts may be unallowed, if the PRDE can identify the portion of Federal funding incurred in Schoolwide and Consolidated activities.

Current Status No final determination has been received from the Federal Awarding Agency.

Finding Reference Number **2021-008 Material Noncompliance and Material Weakness – Equipment and Real Property Management**

National Endowment of the Humanities
U.S. Department of Education
 (ALN – 45.310) Grants to States
 (ALN – 84.027) Special Education – Grants to States (IDEA, Part B) – Special Education Cluster (IDEA)
 (ALN – 84.173) Special Education – Preschool Grants (IDEA Preschool) – Special Education Cluster (IDEA)
 (ALN – 84.425D) COVID-19 Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund

Statement of Condition As part of our procedures on equipment requirements, we requested an inventory of equipment from the PRDE as of June 30, 2021. The inventory detail submitted does not present any disposition of assets, nor are there any assets identified that have been affected by the earthquakes that occurred between December 2019 and January 2020, which damaged school structures. No inventory was taken since 2019.

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

We selected a sample of ten (10) units for the IDEA Cluster, to determine that the items were properly safeguarded and the usage was in accordance with the regulations. We found the following deficiencies:

1. One (1) item (electronic board) was purchased and installed in a classroom that has been closed since the earthquakes that occurred between December 2019 and January 2020. The purchase of the item was made in February 2021.
2. One (1) item (stove) was purchased and installed in a classroom in December 2020 and has not been used because the classroom does not have a receptacle to plug in the electric appliance.
3. One (1) item (kitchen cabinet) was purchased in April 2021, and as of our test date (August 2022), the cabinet was on the classroom floor disassembled. It was noted that it has not been installed because the classroom has leaks that can damage the cabinet.

We selected a sample of 25 units for the ESSER Program, to determine that the items were properly safeguarded and the usage was in accordance with the regulations. We found the following deficiencies:

1. Three (3) items that were not identified in the Bayamón Warehouse and did not have information on transfers to other locations.
2. Two (2) items that were identified in the list of equipment provided by the PRDE, as located in the Caguas Warehouse, were transferred to two schools. When the transfer sheets were provided for our evaluation, the transfer sheets indicated that the items were located at the Bayamón Warehouse.
3. In the report provided by the PRDE, two (2) ice makers were assigned to a facility (school), but only one was located. The item that we selected was not located in the school, and personnel in the school indicated that only one ice maker was received.
4. One (1) item (thermometer) was not located in the school assigned in the report provided by the PRDE. The personnel from the PRDE showed us six (6) thermometers assigned in the school, but none was the one we selected for the test.

We selected a sample of twenty-five (25) units for the Grants to State Program, to determine that the items were properly safeguarded and the usage was in accordance with the regulations. The PRDE was unable to identify the location of two (2) items (laptops) selected for our tests.

Recommendations

We recommend that the PRDE carry out an inventory and reconcile it with the records maintained by the PRDE. In addition, internal controls must be implemented in order to provide certainty that only equipment that is necessary for the operation of the program is purchased. In addition, the use of this equipment must be monitored, so that its installation and use are followed up, as well as the transfer of equipment.

Questioned Cost

None.

Current Status

No final determination has been received from the Federal Awarding Agency.

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

Finding Reference Number **2021-009** **Noncompliance and Significant Deficiency – Matching, Level of Effort, Earmarking**

U.S. National Endowment of the Humanities (ALN – 45.310) Grants to States

Statement of Condition During our audits test of the Maintenance of Effort reports, we noted that the aggregate expenditures for FY 2021 were \$18,093,007, the required expenditure to comply with the Maintenance of Effort for FY 2021 per the PRDE determination based on program requirements was \$18,580,076. Therefore, the PRDE did not reach the required expenditure level to comply with the requirement.

Recommendations We recommend that a formal finance and fiscal staff be assigned to the Grants to States program specifically. Evaluations of current expenditure levels should be made during the award period and if any positions related to library functions are vacated, fill those positions and evaluate any expenditures that could be included under the library programs state expenditures be so accounted for in order to reach the required program goals.

Questioned Cost None.

Current Status No final determination has been received from the Federal Awarding Agency.

Finding Reference Number **2021-010** **Material Noncompliance and Material Weakness – Equipment and Real Property Management**

U.S. Department of Education (ALN – 84.027) Special Education – Grants to States (IDEA, Part B) – Special Education Cluster (IDEA)
 (ALN – 84.173) Special Education – Preschool Grants (IDEA Preschool) – Special Education Cluster (IDEA)

Statement of Condition As part of our audit procedures on internal controls and compliance related to procurement of the IDEA Cluster program, we found the following deficiencies:

1. In the selected sample of disbursements of thirty-one (31) vouchers related to therapy and other related services, the PRDE did not provide evidence on the procurement process. The PRDE provided evaluations of the proposals submitted, but the proposal was not provided for our evaluation. In addition, from the evaluations submitted to bidders who were awarded the service, it was possible to observe comments and scores indicating that it did not meet the specifications.
2. In the interviews conducted for the procurement process for therapy services and other related services, we found that, although an adequate procurement process is performed and scores are awarded in the evaluations, providers that did not meet the required minimum score are allowed to hold a meeting and be able to resubmit the proposal. This process is determined by the Director of Monitoring of Evaluations and Related Services, however, the "Guide for the selection of professional services that are paid for with Federal funds" establishes that the determination to request a "best and final" offer must be requested by the Evaluation Committee.
3. The PRDE maintains different procurement processes, according to the services or goods to be acquired. Specifically, for the proposals for therapy services and related services, they worked under the MIPE program, and this process is not contemplated in the procedure manuals or guidelines that the PRDE has.

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

4. We select seventeen (17) disbursements for which it applied contribution process. We found the following deficiencies: (a) In an experience it was indicated that three (3) quotes had been evaluated, but only one provided us; (b) In two disbursements, no evidence of "no bid" was found by the proponents who did not quote; (c) In an instance there was a proponent with less cost and faster delivery, and the awarding reason to the other proponent was not documented; (d) In two (2) disbursements, the requested brand and model was established; (e) In an instance they did not present evidence of the quotation process, only that the service was required by a Special Education official.
5. No evidence was provided regarding the process to comply with suspension and debarment.

Recommendations We recommend that the PRDE establish updated regulations that address the different realities of the PRDE. In addition, we recommend that recurring purchases can be projected to maximize procurement processes, and avoid splitting purchases, which are more expensive for the PRDE.

Questioned Cost None.

Current Status No final determination has been received from the Federal Awarding Agency.

Finding Reference Number 2021-012 Significant Deficiency – Reporting

U.S. Department of Agriculture (ALN – 10.555) National School Lunch Program (NSLP) – Child Nutrition Cluster
 (ALN – 10.559) Summer Food Service Program for Children (Summer Food Service Program (SFSP) – Child Nutrition Cluster
 (ALN – 10.579) Child Nutrition Discretionary Grants Limited Availability – Child Nutrition Cluster
 (ALN – 10.582) Fresh and Fruit Vegetables Program

Statement of Condition During our audit procedures of the Schedule of Expenditures of Federal Awards (SEFA) prepared by the PRDE, we noted that the SEFA includes incorrect amounts in the funds pass-through to subrecipients totals on SEFA. The SEFA includes certain transfers from one operating unit of the PRDE to other operating units/office within the PRDE as funds pass-through to subrecipients. Differences noted are as follows:

Programs	Assistance Listing Number	Amount Reported on SEFA	Correct Amount for the SEFA	Difference
Child Nutrition Cluster – National School Lunch Program	10.555	\$ 5,103,214	\$ 1,268,261	\$ 3,834,953
Child Nutrition Cluster – Summer Food Service Program for Children	10.559	47,054,994	15,996,494	31,058,500
Child Nutrition Discretionary Grants Limited Availability	10.579	320,813	244,998	75,815
Fresh and Fruit Vegetables Program	10.582	36,909	3,032	33,877

Recommendations The PRDE must revise the SEFA preparation process to include the correct amounts pass-through to subrecipients that meet the criteria of being separate legal entities and not fund or offices within the PRDE.

Questioned Cost None.

Current Status No final determination has been received from the Federal Awarding Agency.

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

Finding Reference Number **2021-013 Material Noncompliance and Material Weakness – Special Test and Provisions – Annual Report Card, High School Graduation Rate**

U.S. Department of Education (ALN – 84.010) Grants to Local Educational Agencies (Title I, Part A of the ESEA)

Statement of Condition As part of our audit procedures over internal controls and compliance for the special tests and provisions of the Annual Report Card, High School Graduation Rate requirement, we selected a sample of twenty-five (25) students. In fifteen (15) instances, we didn't receive the required information to validate that the PRDE are maintaining appropriate documentation to confirm when students have been removed from the adjusted cohort:

Recommendations We recommend that the PRDE strengthen its internal controls procedures in order to provide adequate evidence to ascertain that the procedures are performed as required.

Questioned Cost None.

Current Status No final determination has been received from the Federal Awarding Agency.

Finding Reference Number **2021-017 Noncompliance and Significant Deficiency – Subrecipient Monitoring**

U.S. Department of Education (ALN – 84.287) Twenty-First Century Community Learning Centers

Statement of Condition As part of our audit procedures, we obtained the list of subrecipients active during the fiscal year 2020-2021, monitoring visit schedules and disbursements made. We selected a sample of four (4) subrecipients to test compliance with internal control policies and compliance with the subrecipient monitoring requirement. We noted the following deficiencies during our tests:

1. For two (2) subrecipients, we did not find any evidence of the receipt of the Single Audit Report, Program Specific audit or the required financial statements and special agreed-upon procedure report. Also, we reviewed the Federal Audit Clearinghouse, but no information was found for this subrecipient.
2. For one (1) subrecipient, we could only find on the file a copy of the audited financial statements. In accordance with the PRDE program manual and award contract, the entity was required to submit the special agreed-upon procedure report but it was not submitted.
3. For one (1) subrecipient, the PRDE program staff incorrectly identify the report received as Single Audit report when in fact the subrecipient only submitted the audited financial statements and a Yellow Book Report. There wasn't a Schedule of Expenditures of Federal Awards included on the documents received from the subrecipient, nor was there any of the reports required by the Uniform Guidance from the auditor. Based on the PRDE staff determination and the information included on the financial statements, the subrecipient should have submitted a Single Audit Report or if the program was the only source of Federal expenditures, a Program Specific Audit Report. However, the PRDE staff failed to correctly identify the reports received and no further actions were taken to receive the correct reporting from the subrecipient.

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

4. For two (2) subrecipients (which includes the subrecipient included on item number 3 above), the review worksheet of the report received from the subrecipient did not include the basic information to determine if the internal control procedures have been followed. The worksheet did not include the following: person that reviews the report, date of the review, date the report was filed on the FAC, failed to adequately identify the report received as a Single Audit when that was not applicable.

Recommendations

We recommend that adequate training be provided to the program staff in charge of the report review functions of the program in order to comply with correct evaluation of the audit reports that the subrecipients must submit and be evaluated to comply with this audit or special report requirement established to the program subrecipients. Also, the current procedures for the receipt, review and follow up with subrecipients must be revised in order to provide reasonable assurance that the subrecipient monitoring requirement related to the evaluation of the Single Audits reports is in place and operating to comply with this requirement.

Questioned Cost

None.

Current Status

No final determination has been received from the Federal Awarding Agency.

Finding Reference Number

2021-018 Noncompliance and Significant Deficiency – Subrecipient Monitoring

U.S. Department of Agriculture

(ALN – 10.558) Child and Adult Care Food Program (CACFP)

Statement of Condition

As part of our audit procedures, we obtained a copy of the worksheet for the Single Audit follow-up ("Hoja de Trabajo de Seguimiento de la Auditoria Unica") for the year 2020-2021. We noted the following deficiencies on the worksheet from a sample of ten (10) subrecipients audit reports evaluations tested:

1. For one (1) subrecipient, Single Audit Report for the year ended 6/30/2020 was received at FAC on 3/28/2022; the SAR was submitted to the FAC six months after the due date (as allowed by Covid related time extensions). We requested from the program management any communications, emails, or letters sent to the subrecipient requesting the filling on the report after the due had passed. No evidence was provided that there was a request or follow-up with the subrecipient to assure compliance with the SAR submission requirement.
2. We noted significant delays on the issuance of the management decision ("Decisión Administrativa") of seven (7) evaluations of Single Audit Reports. The dates of the management decisions were issued within February 15, 2022 and February 28, 2022. The issuance of the management decisions represents a delay of over nine (9) months for five subrecipient reports received between March 2021 and June 2021; and a delay of four (4) months for two reports received on October 2021.
3. For three (3) subrecipients, on the worksheet indicated that the date of review of the Single Audit Reports review was done on February 15, 2021; however, the audit reports were submitted at the FAC on 4/29/2021, 6/28/2021 and 3/31/2021, respectively, therefore the date included on the control worksheet were incorrectly entered.
4. One (1) subrecipient selected for test purposes was not included on the worksheet. We reviewed the information for subrecipient on the FAC and noted that the reports were received at the FAC on 3/30/2021. However, the subrecipient was not included on the control worksheet and the SAR was not evaluated on a timely basis.

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

Recommendations We recommend that the current procedure is amended to include the requirement for the subrecipients to make a formal notification to the PRDE 's program staff the Single Audit is applicable or not at the end of each fiscal year when funds were pass-through by the PRDE. Also, to formally notify the PRDE staff when the reports are submitted to the FAC. Also, the program management must monitor the accountants in charge of the maintenance of the control worksheet and the SAR reviews in order to assure that the reports reviews are performed on a monthly basis as stated on the internal control procedures.

Questioned Cost None.

Current Status No final determination has been received from the Federal Awarding Agency.

(3) CORRECTIVE ACTION TAKEN IS SIGNIFICANTLY DIFFERENT FROM CORRECTIVE ACTION PREVIOUSLY REPORTED:

NONE

(4) AUDIT FINDINGS IS NO LONGER VALID:

FISCAL YEAR 2019

Finding Reference Number 2019-003 Noncompliance and Significant Deficiency – Cash Management

Statement of Condition The below Federal programs receive funds under the advance cash management method. The disbursements were made after the required time frame of three (3) business days of their availability.

U.S. Department of Agriculture (ALN – 10.555) National School Lunch Program
 (ALN – 10.559) Summer Food Service Program for Children
 (ALN – 10.558) Child and Adult Care Food Program

U.S. Department of Education (ALN – 84.002) Adult Education - Basic Grants to States
 (ALNs – 84.033; 84.063) Student Financial Assistance Cluster
 (ALN – 84.048) Career and Technical Education – Basic Grants to States
 (ALN – 84.287) Twenty-First Century Community Learning Centers
 (ALN – 84.377) School Improvement Grants

Recommendations 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 tracking of the dates related to check issuance and release.

Also, we suggest management discuss the issue related to 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.

Questioned Cost None

Current Status More than two years without final determination from the Federal Awarding Agency.

(4) AUDIT FINDINGS IS NO LONGER VALID: – continuation

Finding Reference Number	2019-004	Noncompliance and Significant Deficiency – Eligibility
Statement of Condition	Data entered on SIE did not match the physical forms maintained at the schools' records, which were completed by parents or in-charges.	
U.S. Department of Education	(ALN – 84.010) Title I Grants to Local Educational Agencies	
Recommendations	<p>We recommend the 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, the PRDE shall determine any liability to the grantor for any funds provided to ineligible schools resulting from the verification procedures, if any.</p> <p>Additionally, in order to prevent the recurrence of the above conditions, the 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.</p>	
Questioned Cost	Not Determined	
Current Status	More than two years without final determination from the Federal Awarding Agency.	
Finding Reference Number	2019-005	Noncompliance and Significant Deficiency – Special Tests And Provisions – Verification of Free and Reduced Price Applications (NSLP)
Statement of Condition	One instance of five Verification of Free and Reduced Price Applications document was completed after the required due date of November 15th of each year.	
U.S. Department of Agriculture	(ALN – 10.555) National School Lunch Program (ALN – 10.559) Summer Food Service Program for Children	
Recommendations	We recommend that management strengthen its internal control to ensure that all required documentation is accurately and timely filed.	
Questioned Cost	None	
Current Status	More than two years without final determination from the Federal Awarding Agency.	
Finding Reference Number	2019-015	Material Noncompliance and Material Weakness – Special Tests and Provisions – Prohibition on Using Funds for Section 8003 Impact Aid Students
Statement of Condition	No supporting documentation were provided to determine compliance with Section 8003 Impact Aid application with the supporting documentation for the displaced students covered under Emergency Impact Aid program and ascertain that students are not included under both programs.	
U.S. Department of Education	(ALN – 84.938C) Temporary Emergency Impact Aid for Displaced Students	
Recommendations	Management should emphasize the importance of complying with the criteria stated above.	

continue

(4) AUDIT FINDINGS IS NO LONGER VALID: – continuation

Questioned Cost	Not Determined
Current Status	More than two years without final determination from the Federal Awarding Agency.
Finding Reference Number	2019-017 Significant Deficiency – Special Tests and Provisions – Assessment System Security
Statement of Condition	Schools with no Security agreements, no documentation of monitoring reviews conducted before assessment tests were available for reviews, and others without documentation of monitoring reviews.
U.S. Department of Education	(ALN – 84.010) Title I Grants to Local Educational Agencies
Recommendations	In order to prevent the recurrence of the above conditions, the 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.
Questioned Cost	Not Determined
Current Status	More than two years without final determination from the Federal Awarding Agency.
Finding Reference Number	2019-018 Significant Deficiency – Reporting
Statement of Condition	No documentation was provided for our review of two (2) forms SF-270 – Requests for Advance or Reimbursements requested.
U.S. Department of Homeland Security	(ALN – 97.036) Disaster Grants – Public Assistance (Presidentially Declared Disasters)
Recommendations	We recommend the PRDE's management to review and strengthen its communication channels with the sub-grantor to ensure that compliance with requirements is met.
Questioned Cost	None
Current Status	More than two years without final determination from the Federal Awarding Agency.

END OF SCHEDULE

PUERTO RICO DEPARTMENT OF EDUCATION

Single Audit 2021-2022

Corrective Action Plan

Certifying Official: Jullyma Ortiz ✓

Date: 10 June 2024

FINDING NUMBER	2022-001
AUDITOR'S DESCRIPTION	<p>In the evaluation of financial information of the PRDE we found the following deficiencies:</p> <ol style="list-style-type: none"> 1. The PRDE provided us with bank statements of separate cash accounts that are managed in two offices within the PRDE. We noted the following deficiencies: <ol style="list-style-type: none"> a. The PRDE maintains a separate bank account managed by the Special Education program staff. This account is used for a transportation scholarship program for special education students. The PRDE only accounts for the transfer of state funds to the separate bank account on its SIFDE accounting system. There is no reconciliation or accounting of the actual payments made to the participants of the program. The balance of this bank account on July 1st, 2021, was \$1,344,504. During fiscal year 2021-2022, the transfers made to this bank account totaled \$1,000,000, and a total of \$1,080,142 were used in payments to scholarship beneficiaries, and bank charges of \$331 were incurred. As of June 30, 2022, the bank balance of this account was \$1,264,031. b. The other bank account is managed by the Technical and Occupational Education program staff. This account is used for the deposit of tuition costs of student's enrollment on the Technical Institutions of the PRDE. The transactions of this bank account are not recognized in the SIFDE accounting system of the PRDE. We were unable to obtain a copy of the bank statements for this account or obtain any information related to this bank account.
AUDITOR'S RECOMMENDATION	<p>PRDE should implement an accounting procedure to properly recognize and monitor the activities of the two bank accounts which are not registered in the accounting system of PRDE.</p>
CORRECTIVE ACTION PLAN	<p>PRDE acknowledges the identified deficiencies in the accounting and monitoring of the two separate bank accounts. We are committed to implementing procedures that ensure all financial activities are properly recognized and monitored within our accounting system.</p>

	<p>Reconciliation and Accounting Procedures for the Special Education Bank Account:</p> <p>We will establish a procedure to ensure that all transactions related to the Special Education program's bank account are accurately recorded and reconciled in the SIFDE accounting system. This will include implementing monthly reconciliations of the bank account to ensure that all transactions are captured and accurately reflected in the accounting records.</p> <p>Recognition and Monitoring of the Technical and Occupational Education Bank Account:</p> <p>We will initiate a process to obtain complete bank statements and transaction details for the Technical and Occupational Education program's bank account. This will involve:</p> <ul style="list-style-type: none"> - Ensuring that all transactions, including tuition deposits and related activities, are recorded in the SIFDE accounting system. - Establishing a monthly reconciliation process to verify the accuracy of recorded transactions. <p>Internal Control Enhancements:</p> <p>We will develop and implement internal control procedures to ensure the proper management and oversight of all bank accounts within the PRDE. These procedures will include:</p> <ul style="list-style-type: none"> - Establishing clear lines of communication between program staff and the Finance Office to facilitate accurate and timely reporting of financial transactions. - Implementing a monitoring system to ensure that all bank accounts are included in the PRDE's financial statements and reconciliations. <p>We will ensure that all financial activities related to these bank accounts are transparently reported in the PRDE's financial statements and included in the Schedule of Expenditures of Federal Awards (SEFA). This will enhance the accuracy and completeness of our financial reporting. PRDE is dedicated to rectifying the identified deficiencies and enhancing our accounting procedures to ensure accurate recognition and monitoring of all financial activities.</p>
<p>LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM COMPLETION</p>	<p>Judith Parilla Accounts Receivable Supervisor</p> <p>Evelyn Rodríguez Cardé Finance Director</p>
<p>DELIVERABLE</p>	
<p>EVIDENCE INCLUDED YES/NO</p>	<p>Yes</p>
	<p>Current fiscal year.</p>

TARGET COMPLETION DATE	
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FINDING NUMBER	2022-002
AUDITOR'S DESCRIPTION	<p>The PRDE did not maintain on its' accounting system (SIFDE) record of the program revenues and expenditures during the fiscal year under the correct accounting codes required for federal programs in accordance with the prescribed internal control requirements. Federal program accounting codes must include a code identifying the Assistance Listing number of the federal program. During the fiscal year under audit, the program revenues received did not include the required accounting code and there was no record of the related program expenditures. Significant adjustments were needed to the financial statement and Schedule of Expenditures of Federal Awards to include the expenditures incurred during the fiscal year.</p>
AUDITOR'S RECOMMENDATION	<p>The PRDE must revised the accounting record information and recording of transactions related to the program to provide reasonable assurance that the accounting record provides an adequate basis for the SEFA and financial statement preparation. Formal internal controls procedures must be established to regulate the flow of information within the Infrastructure Office and the Finance Office. Also, a fiscal/financial support staff should be identified to provide support on the program accounting and reporting requirements.</p>
CORRECTIVE ACTION PLAN	<p>PRDE acknowledges the identified deficiencies in the maintenance and coding of program revenues and expenditures within our accounting system (SIFDE) as per federal program requirements. We recognize the importance of accurate record-keeping and the critical role it plays in ensuring compliance with federal regulations and the preparation of accurate financial statements and SEFA.</p> <p>PRDE will implement the following action plan:</p> <p>Revision of Accounting Records: We will undertake a comprehensive review and revision of our accounting records to ensure that all transactions related to federal programs are accurately coded with the correct Assistance Listing number. This will involve revising past records as necessary to reflect the correct accounting codes and ensure all expenditures are properly documented.</p> <p>Enhancement of Internal Control Procedures: We will develop and implement formal internal control procedures to regulate the flow of information between the Infrastructure Office and the Finance Office. These procedures will include:</p> <ul style="list-style-type: none"> - Establishing a standardized process for recording and verifying program revenues and expenditures. - Implementing regular reconciliation checks to ensure all transactions are accurately recorded and coded. <p>Identification of Fiscal/Financial Support Staff: We will identify and designate dedicated fiscal/financial support staff responsible for program accounting and reporting. These individuals</p>

	<p>will receive specialized training in federal program accounting requirements and will be tasked with:</p> <ul style="list-style-type: none"> - Providing ongoing support to ensure accurate recording and reporting of federal program transactions. - Assisting in the preparation of financial statements and SEFA. - Liaising between the Infrastructure Office and the Finance Office to ensure consistent application of internal control procedures. <p>PRDE is committed to rectifying the issues identified and enhancing our financial management practices to ensure full compliance with federal requirements. By revising our accounting records, strengthening internal controls, and providing dedicated support and training, we will ensure that our accounting system (SIFDE) maintains accurate and reliable records of program revenues and expenditures, thereby supporting the preparation of accurate financial statements and SEFA.</p>
LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM COMPLETION	Eng. José M. Guadalupe Sub-Director Office of Infrastructure and Reconstruction
DELIVERABLE	
EVIDENCE INCLUDED YES/NO	Yes
TARGET COMPLETION DATE	End of Fiscal Year 2024

FINDING NUMBER	2022-003
AUDITOR'S DESCRIPTION	<p>The PRDE did not maintain on its' accounting system (SIFDE) record of the program revenues and expenditures during the fiscal year under the correct accounting codes required for federal programs in accordance with the prescribe internal control requirements. Federal program accounting codes must include a code identifying the Assistance Listing number of the federal program. During the fiscal year under audit, the program revenues received did not include the require accounting code and there was no record of the related program expenditures. Significant adjustments were needed to financial statement and Schedule of Expenditures of Federal awards to include the expenditures incurred during the fiscal year.</p>
AUDITOR'S RECOMMENDATION	<p>The PRDE must revised the accounting record information and recording of transactions related to the program to provide reasonable assurance that the accounting record provides an adequate basis for the SEFA and financial statement preparation. Formal internal controls procedures must be established to regulate the flow of information within the Infrastructure Office and the Finance Office. Also, a fiscal/financial support staff should be identified to provide support on the program accounting and reporting requirements.</p>
CORRECTIVE ACTION PLAN	<p>PRDE acknowledges the identified deficiencies in the maintenance and coding of program revenues and expenditures within our accounting system (SIFDE) as per federal program requirements. We recognize the importance of accurate record-keeping and the critical role it plays in ensuring compliance with federal regulations and the preparation of accurate financial statements and SEFA.</p> <p>PRDE will implement the following action plan:</p> <p>Revision of Accounting Records: We will undertake a comprehensive review and revision of our accounting records to ensure that all transactions related to federal programs are accurately coded with the correct Assistance Listing number. This will involve revising past records as necessary to reflect the correct accounting codes and ensure all expenditures are properly documented.</p> <p>Enhancement of Internal Control Procedures: We will develop and implement formal internal control procedures to regulate the flow of information between the Infrastructure Office and the Finance Office. These procedures will include:</p> <ul style="list-style-type: none"> - Establishing a standardized process for recording and verifying program revenues and expenditures. - Implementing regular reconciliation checks to ensure all transactions are accurately recorded and coded. <p>Identification of Fiscal/Financial Support Staff: We will identify and designate dedicated fiscal/financial support staff responsible for program accounting and reporting. These individuals</p>

	<p>will receive specialized training in federal program accounting requirements and will be tasked with:</p> <ul style="list-style-type: none"> - Providing ongoing support to ensure accurate recording and reporting of federal program transactions. - Assisting in the preparation of financial statements and SEFA. - Liaising between the Infrastructure Office and the Finance Office to ensure consistent application of internal control procedures. <p>PRDE is committed to rectifying the issues identified and enhancing our financial management practices to ensure full compliance with federal requirements. By revising our accounting records, strengthening internal controls, and providing dedicated support and training, we will ensure that our accounting system (SIFDE) maintains accurate and reliable records of program revenues and expenditures, thereby supporting the preparation of accurate financial statements and SEFA.</p>
<p>LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM COMPLETION</p>	<p>Eng. José M. Guadalupe Sub-Director Office of Infrastructure and Reconstruction</p>
<p>DELIVERABLE</p>	
<p>EVIDENCE INCLUDED YES/NO</p>	<p>Yes</p>
<p>TARGET COMPLETION DATE</p>	<p>End of Fiscal Year 2024</p>

FINDING NUMBER	2022-004
AUDITOR'S DESCRIPTION	<p>During our audit procedures regarding activities allowed or unallowed of the program, we selected a sample of vouchers and when evaluating them, we noted the following situation:</p> <ol style="list-style-type: none"> 1. In three (3) of the vouchers evaluated, the total amount of goods received does not agree with the lead documents included in the supporting documents in the SIFDE system; in addition, the 3-way-match process in the SIFDE system was not performed. 2. In one (1) of the vouchers, the invoice amount is greater than the voucher amount, and an explanation for this difference is not documented. 3. In one (1) of the vouchers, although the payment amount was correct, the invoice included in the supporting documents of the SIFDE system was not for the same amount and number. Basically, the payment was processed without verifying the supporting documents included for the payment in the SIFDE system.
AUDITOR'S RECOMMENDATION	<p>We recommend that the PRDE establish adequate and effective internal controls to verify and agree the supporting documents included in the SIFDE system with the total amount of goods received and the voucher amounts. In addition, we recommend that the receiving reports are created in the SIFDE system so the 3-way-match procedure can be performed adequately.</p>
CORRECTIVE ACTION PLAN	<p>PRDE is committed to comply with all federal and state regulations applicable to programs within the Agency. Consequently, the Agency has taken steps to strengthen internal controls, develop guidelines and procedures for completing reports, and other tasks related to meeting requirements. As we recognize that this is an ongoing process, the program will continue to enforce policies and procedures by training all necessary staff on timeliness of procedures.</p> <p>The PRDE acknowledges the identified deficiencies and is committed to addressing and rectifying the issues raised in the audit finding. In response to the concerns outlined, we would like to highlight the existence and role of our Third Party Fiduciary Agent (TPFA) as a critical component of our internal control framework. The TPFA is an integral part of the PRDE's internal control structure and assumes responsibility for ensuring compliance with federal programs and internal controls. The TPFA is tasked with overseeing financial transactions, verifying supporting documentation, and ensuring that payments align with goods received and invoiced.</p> <p>In light of the audit finding, the PRDE will enhance its internal control to establish robust procedures for verifying information included as supporting documents in the SIFDE system. Also, PRDE will work closely with the TPFA to reinforce their oversight role in verifying compliance with federal programs and internal controls. This</p>

	<p>collaboration aims to ensure that the TPFA's responsibilities align seamlessly with the PRDE's internal control objectives.</p> <p>PRDE are committed to promptly addressing these concerns and will diligently implement corrective measures to strengthen our internal controls and enhance the overall effectiveness of our financial management processes.</p>
LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM COMPLETION	Evelyn Rodríguez Cardé Finance Director
DELIVERABLE	
EVIDENCE INCLUDED YES/NO	Yes
TARGET COMPLETION DATE	Current fiscal year.

FINDING NUMBER	2022-005
AUDITOR'S DESCRIPTION	<p>As part of our procedures over internal controls and compliance for the allowable activities' requirement, we selected a sample of eighty-one (81) disbursements to suppliers made during the fiscal year under audit. We noted the following deficiencies:</p> <ol style="list-style-type: none"> 1. In a disbursement related to educational services, according to the Excel master sheet, the payment had to be adjusted in the amount of \$24,262.80. PRDE personnel verified the documentation, and in an email, the technician indicated that the deficiency was corrected, and that the adjustment was not appropriate, but did not update the information in SIFDE. The staff who reviewed and authorized the payment did not request information about the adjustment and did not adjust the payment according to the documentation in the system. 2. In a disbursement related to professional services for IDEA, the payment was made for \$226,050, when the payment should have been for \$225,250. 3. In a disbursement related to an employee workshop, the KRONOS employee number was not included in all attendees. There are no signatures of attendance, the PRDE indicated that since the workshop was online, there are no signatures or other evidence of attendance other than a "tick mark" on a document. 4. In a disbursement related to educational services for the month of August 2021, we found that several students had the authorization letter for the purchase of services with later dates, from September to December 2021. In a communication dated November 23, 2023, the PRDE indicates that the participants who enrolled were previously contemplated in the contract, but no evidence was provided to us in this regard. 5. In a disbursement related to services to special education students, in the invoice and documents related to the disbursement, the billed students do not present their SIE number, and in other instances they do not indicate the student to whom the service is provided. 6. In a disbursement related to purchases of ninety-eight (98) refrigerators, we noted that seven (7) lead documents were found without the seal of the school that received them, and in another three (3) lead documents there is no name and signature of the person who received the refrigerators. 7. In a disbursement related to evaluation and intervention services, the invoice is sent without itemizing the name of the student, but rather the name of the therapist. There is no way to prove that the service was provided to students who are part of the special education program.

	<p>8. In a disbursement related to assessment and intervention services, therapists' time sheets include the students to whom the service was provided. We searched for five (5) students from the invoices in the Excel master sheets, and were unable to identify any in the Excel master sheets.</p> <p>9. In two (2) disbursements related to workshops and other professional services, no evidence of workshop attendance sheets was found.</p> <p>10. In twenty-five (25) vouchers evaluated, it was found that the invoiced expenses corresponded to both cluster programs (84.027 and 84.173), and the invoices established this. However, the expenses in the system were recognized in grant 84.027, not according to the participants attended and invoiced, according to their age.</p> <p>In addition, we verified seven (7) journal entries made to the program. In one journal entry made to reclassify expenditures incurred in one budget category to another, we noted that the detail of invoices included in the documentation did not agree with the amount of the detail.</p>
<p>AUDITOR'S RECOMMENDATION</p>	<p>We recommend that the PRDE establish standardized written guidelines and train the staff of the Regions to carry out and document the reviews and approvals of services, and ascertain that this information is uploaded in the accounting system of SIFDE. In addition, the personnel must be instructed to account for the budget and expense of therapy and related services, according to the enrollment of students who will attend, in accordance with the program that applies within the cluster.</p>
<p>CORRECTIVE ACTION PLAN</p>	<p>Management Response to Condition #1</p> <p>Management agrees with the finding. Upon review of the supporting documentation, the system (SIFDE) reflects a payment for \$124,500. The total amount of the invoice was \$151,600 and it was adjusted for the amount of \$27,100. However, there is no evidence attached to the system of the adjustments detail, including the reason and the amount adjusted per student.</p> <p>The PRDE understand the importance of addressing this matter promptly and effectively. As part of the corrective measures, in order to prevent future non-compliance issues, the PRDE will provide training to the impacted employees to reinforce the documentation requirements as well as the importance to include in the system all of the supporting documents evaluated as part of the intervention process, including but not limited to any additional documentation requested to the provider.</p> <p>Also, the Program will continue to perform monitoring procedures to confirm that the information is timely available, accurate and complete to ensure compliance with applicable laws and regulations.</p> <p>Management Response to Condition #2</p>

Management agrees with this finding. Upon review of the documentation in the system, this invoice corresponds to professional services provided in June 2021 but the provider also included in the invoice 5 hours of services provided in May 2021. Due to an involuntary error, these hours were not billed in May. However, there is no evidence attached to the system of the detail of the services incurred in May to support this explanation.

As part of the corrective measures, the Program will provide training to the impacted employees to reinforce the intervention process, including the documentation required to approve a disbursement and document retention policies. Also, will be reevaluating the approval processes together with the Third-Party Fiduciary in order to prevent these incorrect disbursements to occur in the future. In addition, the PRDE will provide training to the Finance Department personnel to enforce the evaluation and approval of expenditures process.

Management Response to Condition #3

Management agrees with this finding. PRDE will provide training to the impacted employees to reinforce the policies and procedures in order to prevent future non-compliance issues. Also, to mitigate this matter, the Program will ensure that the vendors provide a certified list of participants for all trainings or workshops (physical or remote) as evidence of attendance for a payment to be issued. Orientation will also be provided to the vendors to reinforce the documentation requirements.

Management Response to Condition #4

Management agrees with this finding. PRDE will perform the following corrective actions:

1. As established in the current guidance "Guía de Procedimiento para presentación y validación de factura", page 9, the Contract must include, as an attachment, the list of students approved to receive education services.
2. Authorization letters must be revised to include the effective date when the educational services started to be provided to the student. This evidence must be attached to the system.
3. The PRDE will provide training to the impacted employees to reinforce the documentation requirements and retention policies in order to prevent future non-compliance with applicable laws and regulations as well as internal policies and procedures.

Management Response to Condition #5

Management agrees with the finding. Upon review of the supporting documentation, it was identified that the contractor has two versions of their attendance sheet template and one of them does not provide a space to include the name and SIE of the student.

The Program maintains a guide for presentation and validation of related and educational services. The last revision of the guide was on September 20, 2021. As a corrective measure, the PRDE will revise the established written guidelines to clarify the requirements of the documentation that must be submitted and evaluated as part of the invoice intervention process.

Also, the Program will develop and implement a standardized attendance sheet for public schools and service centers. This will ensure uniformity of the process for audit/monitoring purposes to ensure compliance with the applicable regulatory guidance. Also, the PRDE will provide training to the employees of the Regional Offices to prevent future non-compliance issues.

Management Response to Condition #6

Management partially agrees with the finding. Upon review of the supporting documentation, it was noted that all of the lead documents have the signature of the person who received the equipment. However, we confirm that there are seven (7) without the seal of the school. As a corrective measure, the Program will provide training to the employees to prevent future non-compliance issues.

Management Response to Condition #7

Management does not agree with this finding. Upon review of the supporting documentation, it was noted that the invoice for the evaluation and intervention services include the Excel Master (Excel Master de Servicios) which incorporates the name of each student who receive services during the period evaluated. It is confirmed that the amounts in the Excel Master properly agrees with the invoice in terms of invoice amount by age group and type of school. Furthermore, in order to prevent misunderstanding and guarantee the uniformity and transparency of the process, the Program will be developing and implementing a standardized sheet to record the attendance of the specialists who provide services in public schools and special education service centers. Prior to submitting the invoice, the contractor must verify that the time sheet of the specialist who offers services agrees with the data reported in the Excel Master and the schedule of services to be offered to the students they served.

Management Response to Condition #8

Management agrees with this finding. PRDE will enforce its policies and procedures. To mitigate this finding, PRDE will request the vendor to include in the certified list only the student's participant of the assessment and intervention services for each month of service by school. Also, the "Excel Master de Servicios" must agree with the lists of students for the payment to be issued. In addition, the PRDE will provide training to the employees to reinforce the documentation requirements and retention policies in order to prevent future non-compliance with applicable laws and regulations as well as internal policies and procedures.

Management Response to Condition #9

	<p>Management agrees with the finding. Upon review of the supporting documentation, it was identified that:</p> <p>Voucher 01041087, there is an attachment to the invoice that includes the Zoom Report as evidence of the workshop held on May 7, 2021 including the Topic, Meeting ID, User Name, Start and End Time, Duration and amount participants. However, there is no evidence of an attendance sheet including the name and signature of the participants.</p> <p>With regards to voucher 01075478, there is an attachment to the invoice that includes the Zoom Report as evidence of the workshop held on January 19, 2022, however, the documentation was not clear. The duration of the meeting in the report does not agree with the hours in the invoice.</p> <p>The PRDE understand the importance of addressing this matter promptly and effectively. As part of the corrective measures, the PRDE will provide training to reinforce the documentation requirements and documents retention policy to ensure that the information is timely available, accurate and complete in order to comply with applicable laws and regulations as well as to prevent future non-compliance issues.</p> <p>Management Response to Condition #10</p> <p>IDEA Part B, Section 611 funds can be used for students ages 3 to 21. According to the description that OSEP provides for the §611: Special Education – Grants to States program, indicates that “The Grants to States program provides formula grants to assist the 50 states, the District of Columbia, Puerto Rico, the Department of the Interior, Outlying Areas, and the Freely Associated States in meeting the excess costs of providing special education and related services to children with disabilities. In order to be eligible for funding, states must serve all children with disabilities between the ages of 3 through 21, except that they are not required to serve children aged 3 through 5 or 18 through 21 years if services are inconsistent with State law or practice or the order of any court. A state that does not provide a free appropriate public education (FAPE) to children with disabilities aged 3 through 5 cannot receive base payment funds attributable to this age group or any funds under the Preschool Grants program.” Under 34 CFR § 300.202 (a), the LEA must use funds from IDEA, Part B "in accordance with the applicable provisions of this part ... to pay the excess costs of providing special education and related services to children with disabilities."</p>
<p>LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM COMPLETION</p>	<p>Enid Diaz Nieves Executive Director Associate Secretary of Special Education</p> <p>Noelia Cortes Associate Secretary of Special Education</p>
<p>DELIVERABLE</p>	
	<p>Yes</p>

EVIDENCE INCLUDED YES/NO	
TARGET COMPLETION DATE	Current fiscal year.

FINDING NUMBER	2022-006
AUDITOR'S DESCRIPTION	<p>As part of our audit procedures over internal controls and compliance for the allowable activities' requirement, we selected a sample of forty (40) disbursements for Emergency Assistance to Institutions of Higher Education (84.938T) and four (4) disbursement for HEERF (84.425F) to suppliers made during fiscal year under audit. We found (1) instance of disbursement with the same supplier in each of the programs above-mentioned, for which the purchase order amount and the service provided was not contemplated or included in the contract. The contract describes the type of service to be performed and establishes the regions and the institutions where the services will be performed. When we evaluated the invoice, we found that the service was provided to a region and institution not included in the contract. The Contract and Purchase Order established that the services to be provided would be in the institutions of Guayama and Manati. However, the invoice paid in the program 84.938T indicated that the services provided were in San Juan, and the invoices paid in the program 84.425F indicated that the services provided were in Bayamón. In addition, the purchase order amount exceeded the contract amount. The total purchase order amount was \$780,780, the contract total amount was \$591,010, with a difference \$189,770. No additional evidence was provided to justify the services performed or to justify the purchase order amount above the contract.</p>
AUDITOR'S RECOMMENDATION	<p>We recommend to the PRDE to review the invoices submitted by the supplier against the contract terms to validate that the services provided are in compliance with the contract requirements and contract amendments, if any, before the issuance of any payments.</p>
CORRECTIVE ACTION PLAN	<p>On October 30, 2019, the Formal Auction Opening, SF (OC) 2020-001 "001 "SUBASTA PARA EL REEMPLAZO DE LAS UNIDADES DE AIRE DEL INSTITUTO TECNOLÓGICO DE PUERTO RICO, RECINTO DE GUAYAMA Y MANATÍ, ADSCRITO AL ÁREA DE EDUCACION TÉCNICA DE LA SECRETARÍA AUXILIAR DE EDUCACIÓN OCUPACIONAL Y TÉCNICA" was held. After the required processes, the auction was awarded to Clean Air Contractors, Corp. On September 14, 2020, Contract 2021-AF0024 was granted between the Puerto Rico Department of Education (Department) and Clean Air Contractors, Corp.</p> <p>Regulation 7040, the Regulation for the Acquisition, Sales, and Auctions of Goods, Works, and Non-Personal Services, amended 7545-7934, dated October 5, 2005, which was applicable at the time of the auction, permits the use of available contracts within any department dependency for the acquisition of goods, works, and services under the term "purchase against contracts." The applicable regulations for this case are detailed below.</p> <p>Section 5.11 of Regulation 7040 states:</p> <p style="text-align: center;">Sec. 5.11 – Purchases against contract</p>

Purchase made directly from a supplier with whom a contract has been formalized, following the award of a formal or informal auction.

Section 13.3.1 of Regulation 7040 states:

Sec. 13.3.1 – Purchases against contracts

The Buyer may issue purchase orders against contracts established by the Department itself in any of its dependencies or against contracts available in other government agencies.

Section 13.3.1.1 of Regulation 7040 states:

Sec. 13.3.1.1 – Contracts available in any Department dependency

The various acquiring units of the Department, whether school groups, school districts, educational regions, or central office, may group their needs for goods, works, and non-personal services to be acquired recurrently throughout the year. For the acquisition of such goods, works, or services, annual or semi-annual contracts will be formalized with one or more suppliers. Suppliers with whom contracts are formalized must have been selected through formal auctions. The contracts may establish estimated or approximate quantities of products or services, or indeterminate quantities. This type of contract will stipulate that the Acquiring Unit or the Department may increase or decrease the established quantity of a product or service during the contractual period, according to prevailing circumstances or available funds. If provided for in the contract terms, direct purchase orders may be issued against the same, both by Buyers of the acquiring unit(s) that generated it, and by Buyers from any other Acquiring Unit of the Agency.

Contract 2021-AF0024 stipulates, in paragraph FIFTH, page 3, that the quantity of the product can be increased or decreased:

FIFTH: PURCHASE ORDERS: It is agreed between the parties that the quantities established in the auction specifications Number S.F.

(OC) 2020-001 "Replacement of Air Units at the Puerto Rico Institute of Technology, Guayama and Manatí Campuses, Under the Technical Education Area of the Assistant Secretary of Occupational and Technical Education" may increase or decrease and will be issued based on prevailing needs or available funds.

Contract 2021-AF0024 also stipulates, in paragraph SIXTH, page 3, item 3, that payment may be issued from other account figures:

SIXTH: RESOURCES TO PAY FOR THE GOODS TO BE ACQUIRED: The goods to be acquired and the services to be provided under this contract will be paid from the Account Figures:

...

and/or from other account figures with available funds for the payment of goods and services.

	<p>In this case, and as required by Regulation 7040, there exists:</p> <ul style="list-style-type: none"> (1) a formal auction; SF (OC) 2020-001; (2) a valid contract, Contract 2021-AF0024; (3) a stipulation in the contract that allows the quantities established in the auction specifications to be increased or decreased. <p>Furthermore, the state regulation defines direct purchase as follows:</p> <p>Section 5.7 – Direct purchase</p> <p>Purchase of a good, work, or non-personal service that, due to prevailing special circumstances, does not require the holding of a formal or informal auction.</p> <p>In this case under our consideration, the exceptional circumstance that the Technical Education Program and the DEPR were experiencing was the resumption of operations after Hurricanes Irma and Maria; and subsequently the COVID-19 pandemic. This information is supported and documented in the work plans submitted by the institutes attached to the program for authorization to use emergency funds under the Bipartisan Budget Act of 2018 and under the federal emergency funds granted by the USDE to the DEPR due to the COVID-19 pandemic. The corresponding plan evidence is attached.</p> <p>For all the above reasons, the approval and issuance of payment to the supplier complied with all the requirements of the Regulation and applicable processes.</p> <p>On the other hand, this finding is related to a procurement transaction carried out under the past Regulation 7040 of 2005, as amended, which is no longer in effect. In November 2020, a new Procurement Regulation applicable to PRDE was issued. Regulation 9230 of 2020 is currently in place and it requires PRDE to procure goods and services under the by laws and supervision of the local General Administration Services (ASG) where the majority of the procurement processes take place, and once contracts are finalized, they become available for the benefit of all governmental entities covered by the said regulation. ASG staff are experts on governmental acquisitions, bidding processes and other related matters; and they have the ability to plan and execute open competitive processes in advance, to be ready for when PRDE is in need. Therefore, procurement exceptions should be reduced or even eliminated.</p> <p>Further, ASG has required PRDE's procurement staff to move to their Headquarters and to be part of their staff. The implementation of this change could mean that PRDE would no longer be able to procure goods and or non-professional services within the Agency. This opportunity requires PRDE and ASG to work hand-in-hand to build a stronger team paired with additional resources to improve procedures and avoid noncompliance in the procurement area.</p>
<p>LEAD PERSONS ACCOUNTABLE FOR</p>	<p>Edgar Delgado Program Coordinator</p>

ACTION ITEM COMPLETION	Maria de los Angeles Lizardi Auxiliary Secretary for Federal Affairs
DELIVERABLE	
EVIDENCE INCLUDED YES/NO	Yes
TARGET COMPLETION DATE	Implemented

FINDING NUMBER	2022-007
AUDITOR'S DESCRIPTION	<p>During our audit procedures regarding activities allowed or unallowed and allowable costs/cost principles of the program, we selected a sample of sixty-seven (67) vouchers and when evaluating them, we noted the following situations:</p> <ol style="list-style-type: none"> 1. In one (1) of the vouchers evaluated, the purchase order was created after the beginning of the service period. The purchase order was created on December 15, 2021 and the services were from November 12, 2021 to December 16, 2021. 2. In one (1) of the vouchers, the invoiced cost of the equipment included its installation, however there is no evidence in the documentation that support that the installation was carried out for all the equipment delivered, although the invoice amount was paid in full. 3. In one (1) of the vouchers evaluated, the total amount of goods received does not agree with the lead documents included in the supporting documents in the SIFDE system; in addition the 3-way-match process in the SIFDE system was not performed. 4. In one (1) of the vouchers evaluated, we found that a duplicate payment was made to the supplier for the same invoice. Although the amount was recovered, the internal controls procedures failed to correct properly and in a timely manner the error.
AUDITOR'S RECOMMENDATION	<p>We recommend that the PRDE establish adequate and effective internal controls to verify and agree the supporting documents included in the SIFDE system with the total amount of goods received and the voucher amounts. In addition, we recommend that the receiving reports are created in the SIFDE system so the 3-way-match procedure can be performed adequately. Also, we recommend verifying the internal controls established for the creation of purchase orders so an adequate procedure is established to verify that a purchase order is created before the service is received. For condition number four (4), we recommend that the PRDE establish adequate controls within the SIFDE system to stop the payment process for invoices requested to be adjusted and for invoices with the same numbers. In addition, we recommend that better controls and communication channels be established between departments so that a duplicate payment is not collected twice from the supplier.</p>
CORRECTIVE ACTION PLAN	<p>Management Response to Condition #1 and #3:</p> <p>Management concurs with the auditor's finding. PRDE is committed to comply with all policies and procedures established. Even though, PRDE has taken steps to strengthen internal controls that will prevent situations as those mentioned on statement of condition #1 and #3. Also, the program will continue to enforce policies and procedures by training personnel.</p>

	<p>Management Response to Condition #2:</p> <p>This finding indicates that no evidence was provided to auditors that proves that installation services were carried out for all the equipment (electronic boards) delivered to schools. After reviewing the evidence provided to the auditors, the Receiving Reports (“Conduces”), that were signed by the school certifying that the goods and services were delivered, included the installation services. Even though, after the inventory observation procedures were performed by the auditors, the auditors identified one (1) electronic board that was delivered to a school but was not installed (refer to finding 2022-010). Also, in this school another eight (8) electronic boards, not selected for testing by the auditors, were identified as being delivered but not installed. DEPR will evaluate the instances mentioned. From this point forward, the Finance Department and the Property Department will ensure that all the equipment delivered to schools, that requires installation services, are installed in the school assigned upon delivery. For more details refer to finding 2022-010.</p> <p>Management Response to Condition #4:</p> <p>Management concurs with the auditor’s finding, even though, it is important to mention that the amount was recovered from the supplier before the audit process was carried out. Although the PRDE has in place controls to identify these improper disbursements, the Agency will be reevaluating the approval processes together with the Third-Party Fiduciary so that these incorrect disbursements do not occur. Also, PRDE will provide trainings to the Finance Department personnel related to the evaluation and approval of expenditures process.</p>
<p>LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM COMPLETION</p>	<p>Edgar Delgado Program Coordinator</p> <p>Maria de los Angeles Lizardi Auxiliary Secretary for Federal Affairs</p>
<p>DELIVERABLE</p>	
<p>EVIDENCE INCLUDED YES/NO</p>	<p>Yes</p>
<p>TARGET COMPLETION DATE</p>	<p>In process.</p>

FINDING NUMBER

2022-008

AUDITOR'S DESCRIPTION

During our internal control and compliance tests of disbursements for Federal programs, we selected seven (7) payments of professional services of Third Party Fiduciary Agent Services ("TPFA") as part of our samples of the different Federal major programs. During our tests, we noted the following conditions:

1. Reasonableness of costs: The payment made to the vendor is a "flat fee" monthly payment agreed to in the professional service contract. Although the vendor invoice includes a detail of hours of service and expense summary, this information is solely for "information purposes" and not to be taken into account for the actual invoice payment process. The monthly payment amount only consideration is the agreed upon "flat fee". In the invoices evaluated (see detail below), the vendor includes the total hours incurred for each invoice with a price per hour range from \$175 to \$700. Also, the invoices include an expense summary for the period. When we compared the actual payment to the hours incurred and related expenditures, we noted an unreasonable charge to the PRDE and its Federal funds based upon the payment being made versus the actual service hours/expenses included on the invoice; when it is compared to price estimates made during the RFP process when the per hour price ranges were from \$65 to \$352.

VOUCHER NUMBER	VOUCHER DATE	VOUCHER AMOUNT	INVOICE NUMBER	INVOICE DATE	SERVICE PERIOD	TOTAL HOURS INVOICED	INVOICE AMOUNT	TOTAL RELATED EXPENSES	AVERAGE HOURLY CALCUL
01045563	9/10/2021	\$ 3,143,750.00	830311-2021-04	8/5/2021	July 2021	3,313.75	\$ 3,143,750.00	\$ 91,801.97	\$
01049684	9/13/2021	3,143,750.00	830311-2021-05	9/3/2021	August 2021	4,681.25	3,143,750.00	167,096.24	\$
01054436	10/12/2021	3,143,750.00	830311-2021-06	10/2/2021	September 2021	4,832.90	3,143,750.00	186,365.52	\$
01059111	11/16/2021	3,143,750.00	830311-2021-07	11/1/2021	October 2021	4,678.20	3,143,750.00	265,746.64	\$
01066083	1/1/2022	3,143,750.00	830311-2021-08	12/6/2021	November 2021	5,239.22	3,143,750.00	165,261.50	\$
01066400	1/18/2022	3,143,750.00	830311-2021-09	1/5/2022	December 2021	5,272.49	3,143,750.00	278,552.08	\$
01073782	3/1/2022	3,143,750.00	830311-2022-10	2/5/2022	January 2022	5,476.04	3,143,750.00	151,810.86	\$
							<u>\$ 22,006,250.00</u>	<u>\$ 1,306,634.81</u>	

2. Allocability – the payment made was distributed among several Federal programs and state funds as follows:

State Fund	CONSOLIDATED FUNDS (SEAL/EA)	ALN 84.425D	ALN 84.425R	ALN 84.425U	ALN 84.425W	ALN 84.938A	ALN 84.048	ALN 84.027	ALN 84.196A	ALN 84.002	TOTAL ALLOCATED AMOUNT
\$ -	\$ 1,412,230.23	\$ 445,449.18	\$ -	\$ -	\$ -	\$ 1,095,484.59	\$ 180,921.34	\$ -	\$ 18,197.88	\$ 11,466.78	\$ 3,143,750.00
-	3,052,003.76	-	-	-	-	-	-	-	-	91,746.24	3,143,750.00
-	1,417,811.20	1,417,811.20	-	-	-	-	-	35,057.00	43,890.25	229,180.35	3,143,750.00
-	1,812,026.49	1,331,723.51	-	-	-	-	-	-	-	-	3,143,750.00
-	1,381,829.54	-	-	1,761,920.46	-	-	-	-	-	-	3,143,750.00
-	-	1,015,556.29	60,405.00	1,957,877.56	110,111.15	-	-	-	-	-	3,143,750.00
3,104,155.00	-	-	39,595.00	-	-	-	-	-	-	-	3,143,750.00
<u>\$ 3,104,155.00</u>	<u>\$ 9,075,901.22</u>	<u>\$ 4,210,540.18</u>	<u>\$ 100,000.00</u>	<u>\$ 3,719,598.02</u>	<u>\$ 110,111.15</u>	<u>\$ 1,095,484.59</u>	<u>\$ 180,921.34</u>	<u>\$ 35,057.00</u>	<u>\$ 62,088.13</u>	<u>\$ 332,393.37</u>	<u>\$ 22,006,250.00</u>
14.11%	41.24%	18.13%	0.45%	16.90%	0.50%	4.98%	0.73%	0.16%	0.28%	1.51%	

Based on the payment documentation of the evaluated invoices, the allocations were made based on available budget of administrative allocation of Federal awards, the invoices didn't include any basis for the allocation of costs between Federal and non-Federal funds. For example, on invoice number 830311-2021-09 the amount of \$3,143,750 was charge completely to several programs of ALN 84.425, although the services described in the invoice were not related only to these programs; therefore the cost objective is not chargeable in accordance with the relative benefit received. Also, in the description of hours worked, not identified the time spend in each Federal program.

<p>AUDITOR'S RECOMMENDATION</p>	<p>We recommend to the PRDE to establish an adequate and consistent allocation method of each invoice amount that reflect the relative benefits that the Federal program received from the services provided by the supplier during the invoice period, so the Federal program can be charge the costs of that period. In addition we recommend that the PRDE revised the contract terms to include a reconciliation of total hours and rates to adjust the payments made to the vendor before the contract expiration. Also we recommend that the PRDE should request that adequate supporting evidence from the vendors be presented for any expenses to be reimbursed by the PRDE.</p>
<p>CORRECTIVE ACTION PLAN</p>	<p>Management Response to Condition #1</p> <p>PRDE does not agree with Condition 1 of this finding (Reasonableness of Costs). We understand that this finding is similar to 2021-006 when we noted that the audit team had not contacted PRDE's Procurement Office to discuss details of the TPFA procurement process. There are files available supporting the determinations made by the PRDE Evaluation Committee as it considered the procurement of TPFA services.</p> <p>As a result of a Specific Conditions letter issued by the United States Department of Education (USDE), the PRDE was required to contract a Third-Party Fiduciary Agent ("TPFA") to oversee the administration of federal funds. As this was the first time the PRDE was required to contract a TPFA, the PRDE received guidance from the USDE. The USDE reviewed and approved the key procurement terms of the RFP, including the stipulated "flat fee" provision for payment of TPFA services.</p> <p>The initial TPFA contract was for a two-year period, beginning April 1, 2021, and terminating March 31, 2023. The monthly "flat fee" for each of the first twelve months was \$3,143,750 and the monthly "flat fee" for each of the second twelve months was \$3,495,833, or \$79,674,996 in total for the two-year period. The fixed monthly fees were a result of extensive negotiations between the PRDE and the selected vendor. The final contract, including the flat monthly fees, was approved by the USDE. Included in Exhibit B of the contract is a template of the monthly invoice stating that, although the hours and expenses are disclosed in the invoice, the information is solely for informational purposes and is not to be used to calculate the Total Amount Due, which in each month is the applicable "flat fee".</p> <p>We disagree with the audit finding that the hourly rate for TPFA services, received from July 2021 through January 2022, as calculated by the audit team, is unreasonable. The reasonableness of the hourly rate must be determined over the entire life of the contract, and not from a limited sample of invoices taken only during the first year of the contract. In determining its monthly fees for its contract with the PRDE, the vendor projected that the monthly hours would gradually increase as it "ramped up" the level of service according to the needs of multiple statements of work stipulated in the contract. The vendor estimated that the hourly rate for service professionals, over the entire life of the contract, would range between \$175 and \$700.</p> <p>During the early months of the contract the ability of the vendor to ramp up its hourly services as originally projected was hindered by limitations on travel and access to PRDE personnel because of the COVID-19 epidemic. Consequently, the average rate per hour during those months was higher than estimated because the flat fees, after expenses, were allocated over fewer numbers of hours. As the vendor's services ramped up, when limitations due to COVID-19</p>

	<p>subsidized and more hours were incurred each month, the average rate per hour decreased. The analysis below shows that, over the contract's two-year life, the hourly rate began to decrease each month after June 2021, and continued to decrease on an accumulated basis. The accumulated two-year rate for TPFA services was \$438 and in March 2023, the rate per hour had dropped to \$319, well within the range stipulated in the monthly invoice template.</p> <p>The audit team also states that the RFP process indicated the per hour price ranges were from \$65 to \$352. The PRDE's response is that the rates in the RFP were expected to be local billing rates and not rates of a global consulting firm providing TPFA services from a team of experienced senior professionals. The range of rates noted in the invoice template, i.e., \$175 - \$700, approximates rates of the US General Services Administration (GSA).</p> <p>Management Response to Condition #2</p> <p>The PRDE does not agree with Condition 2 of the finding (Allocability). The funding of TPFA invoices from various federal funds was a result of (i) discussions between the PRDE and the USDE, (ii) the USDE's authorization for the availability of federal funds to pay TPFA invoices and (iii) the actual availability of federal and state funds at the PRDE.</p> <p>The TPFA services are applicable to all federal funds under the TPFA's administration, and its work is not directly tied to any specific grant. The funding for TPFA services is divided between federal and state funds as agreed between the PRDE and the USDE and payment for those services is determined based upon the availability of both federal and state funds. TPFA services are conducted for the benefit of the entire PRDE organization and, as such, are overhead costs not directly tied to a specific program purpose. In addition, funds used to pay TPFA invoices are sourced from grant administration accounts that are specifically designated for the payment of overhead costs.</p> <p>Management Response to Finding 2022-008 – Recommendations:</p> <p>The PRDE does not agree with the Recommendation to establish an allocation method for TPFA invoices because, as noted above, TPFA services are overhead costs paid from administrative funds and are not tied to any specific federal grant. In addition, the PRDE does not agree that contract terms should be revised before the contract expiration to require a reconciliation of total hours and rates because again, payments to the TPFA are overhead costs not directly tied to any specific program. Finally, the PRDE does not agree with the recommendation that the TPFA submit supporting evidence for the reimbursement of expenses because (i) the TPFA contract is a fixed fee that is inclusive of all professional service fees and expenses and (ii) the TPFA provides an explanation of major expenses incurred within each monthly invoice.</p>
<p>LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM COMPLETION</p>	<p>Maria de los Angeles Lizardi Auxiliary Secretary for Federal Affairs</p> <p>Jullymar Octaviani Vega Sub-Secretary of Administration</p>
<p>DELIVERABLE</p>	

EVIDENCE INCLUDED YES/NO	Yes
TARGET COMPLETION DATE	Not Required.

FINDING NUMBER**2022-009****AUDITOR'S DESCRIPTION**

As part of our audit procedures and interviews over financial reporting, we obtained a detail of accounts receivable related to duplicate payments or incorrect payments made for payroll transactions in the amount of \$5,053,714. Invoices issued during the fiscal year ended June 30, 2022 balance, were distributed as Federal and state, as follows:

Assistance Listing Number	Program Description	Transaction Balance
10.553/ 10.555/ 10.559/ 10.582	Child Nutrition Cluster	\$ 162,267
84.002	Adult Education - Basic Grants to States Neglected and Delinquent State Agency and Local Educational Agency Program	2,000
84.013	Special Education - Grants to States (IDEA, Part B)	327
84.027	Impact Aid (Title VII of ESEA)	132,932
84.041	Vocational Education - Basic Grants to States	5,880
84.048	Supporting Effective Instruction State Grants	2,430
84.367A	Elementary and Secondary School Emergency Relief Fund (ESSER)	946
84.425D	Schoolwide Program (State and Federal Funds)	52,256
Not Determined	Consolidated Funds (State and Federal Funds)	1,225,443
Not Determined	State Funds	26,772
Not Applicable		3,442,461
Total Invoices Issued Balance at 06/30/2022		<u>\$ 5,053,714</u>

We selected ten (10) employees to determine the reason for the overpayment. We noted the instances are related to resignations from 2002 to 2021, which continued to be paid after the resignation became effective.

AUDITOR'S RECOMMENDATION

We recommend PRDE design and implement adequate internal controls and payroll processes that will identify in real – time or sooner any incorrect payroll payment made.

CORRECTIVE ACTION PLAN

Management agrees with audit finding and implemented a corrective action plan. Below you will find a summary of the progress of the implementation of the Project of Integration between TAL (Time, Attendance and Leaves) System and Payroll (RHUM) System.

As part of the PRDE Fiscal Plan of 2020-2021, the official integration between the TAL system and payroll (RHUM) was incorporated. This process was driven to ensure to pay the payroll of PRDE's employees based on the validation of the employee's presence (attendance) at work as captured/recorded by the TAL system. The controls added to the system require the employees to punch in and out (with their fingerprints) or have an authorized leave (vacation or sick) completed through the corresponding form, documented in system and certified by their supervisor, in order to receive payment for the services provided to the program or office where they perform daily. If this step is not completed in a timely manner, a notification is issued and an adjustment is automatically made.

Therefore, PRDE is significantly reducing the over payments, duplicated and/or improper payments related to this payroll finding. This project started on November 2020, with the support of the consultants

	<p>of the Puerto Rico Fiscal Oversight and Management Board (FOMB)-MS Consulting; PRDE personnel and staff from the Department of the Treasury (Hacienda). The plan also integrated various governmental dependencies such as: PRDE, Hacienda, Fiscal Oversight and Management Board; Financial Advisory Authority (AAFAF, by its acronym in Spanish), and the Puerto Rico Innovation and Technology Service (PRITS).</p> <p>Throughout the deployment of the mentioned project, the system controls and integration were completed on February 2021. The additional activities that are part of the Corrective Action Plan, continued with the development of a New Time and Attendance Policy applicable to the PRDE personnel, of December 7, 2021, which was later updated on April 11, 2022.</p> <p>This new policy covers the following:</p> <ul style="list-style-type: none"> • Duties and responsibilities of all PRDE's employees regarding TAL; • The list and definitions of authorized leaves that could be requested by PRDE employees; • Disciplinary actions and procedures related to notifications and discounts, if there are noncompliance with timeframes; • Specific procedures of warning letters to supervisors that don't follow the new policy satisfactorily; and • Other related payroll matters <p>These norms define specifically the procedures of how to record presence in the system, and how to apply the work time when requesting a leave that should be approved by the employee supervisor. As mentioned, if not perform effectively and in accordance with the Time and Attendance Policy, the employee will automatically get the notification and discount.</p> <p>The Time and Attendance staff has continued the following:</p> <ul style="list-style-type: none"> • Training activities with PRDE personnel in various events; • Monitoring of the behavior of the employee's attendance through the system Dashboard; • Issuance of warnings and discount notifications to the applicable staff; • Performing the mandatory discounts biweekly; and • Other related activities <p>Time and Attendance personnel will continue to follow up to this project performing any subsequent and on-going activities as outlined by the corresponding plan.</p>
<p>LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM COMPLETION</p>	<p>Judith Parilla Accounts Receivable Supervisor</p> <p>Evelyn Rodríguez Cardé Finance Director</p>
<p>DELIVERABLE</p>	

EVIDENCE INCLUDED YES/NO	Yes
TARGET COMPLETION DATE	Already Implemented.

FINDING NUMBER	2022-010
AUDITOR'S DESCRIPTION	<p>As part of our procedures regarding equipment requirements, we requested an inventory of equipment from the PRDE as of June 30, 2022. The inventory detail submitted does not present any disposition of assets, nor are there any assets identified that have been affected by the earthquakes that occurred between December 2019 and January 2020, which damaged school structures. No inventory was taken since 2019.</p> <p>We selected a sample of twenty-five (25) units for the IDEA Cluster, to determine that the items were properly safeguarded and the usage was in accordance with the regulations. We found the following deficiencies:</p> <ol style="list-style-type: none"> 1. One (1) item (electronic board) The inventory report showed that the electronic board was in one school, but it was transferred to another school and the equipment has not yet been installed in the new school. 2. One (1) item (an interactive flat screen), was located in a different location than what appeared in the inventory provided. 3. One (1) item (swing) for elementary school ages was in boxes in a library storage room, this school where it was stored is a middle school. 4. One (1) item (electronic board) was purchased for a classroom that has been closed since the earthquakes that occurred between December 2019 and January 2020. The purchase of the item was made in May 2022. This item has not been installed. <p>We selected a sample of twenty-five (25) units for the ESSER Program, to determine that the items were properly safeguarded and the usage was in accordance with the regulations. We found the following deficiencies:</p> <ol style="list-style-type: none"> 1. One (1) item (electronic board) was located in the school assigned in the report with its property tag number but was still in the box without being installed. The purchase of the item was made in February 2022. Other eight (8) electronic boards assigned to the school are in the same condition as the one evaluated. According to the staff of the school, the school will be demolished to build a new one. 2. Two (2) items (thermometers) were located in the schools assigned in the report with its property tag number but there were damaged and not in used. No adjustments were made to the property records for this items.
AUDITOR'S RECOMMENDATION	<p>We recommend that the PRDE carry out an inventory and reconcile it with the records maintained by the PRDE. In addition, internal controls must be implemented in order to provide certainty that only equipment that is necessary for the operation of the program is purchased. In</p>

	<p>addition, the use of this equipment must be monitored, so that its installation and use are followed up, as well as the transfer of equipment.</p>
<p>CORRECTIVE ACTION PLAN</p>	<p>PRDE agrees with the conditions found and following are the actions performed or to be performed:</p> <p>IDEA cluster: Items one (1) and two (2) were already updated in the accounting system (Asset Management Module (“AMM”)) and item three (3) was already transferred to an elementary school for their corresponding use. Correspondingly, this item was updated in AMM.</p> <p>As said in the condition, item four (4) is in a school which has an affected classroom after the earthquakes. Therefore, the board will not be installed until the classroom has been conditioned and has been safe for the personnel and students.</p> <p>ESSER program: As said in condition one (1), the school will be under remodeling process, therefore the electronic boards will not be installed until finished to keep the equipment safe and under the custody of the personnel in charge.</p> <p>Items included in condition (2) are under the process of decommission. The process of decommission requires coordination and a reasonable time to be completed. Once the property department has been notified as part of the regular process, proper adjustments in AMM will be performed.</p> <p>Property and equipment inventory: The identified matter related to the physical inventory pertains to challenges attributed to the significant disruptions caused by the COVID-19 pandemic and earthquakes. To address this situation, the following plan is on development. First, the physical inventory is currently in process with meticulous attention to details and accuracy over the equipment. In parallel, SIFDE accounting system will be used to conduct system-based inventory count, ensuring the accuracy of inventory records. Efforts made to perform the inventory despite difficulties will be meticulously recorded for audit trail purposes.</p> <p>A monitoring mechanism was set up to track progress towards completing the inventory. Additionally, once the inventory is completed, immediate attention will be given to update any outdated data about location and custodian found during the process, ensuring the overall integrity of the financial records.</p>
<p>LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM COMPLETION</p>	<p>Nilda Morales Property Director</p>
<p>DELIVERABLE</p>	

EVIDENCE INCLUDED YES/NO	Yes
TARGET COMPLETION DATE	In process.

FINDING NUMBER	2022-011
AUDITOR'S DESCRIPTION	As part of our audit procedures on internal controls and compliance related to period of performance of the IDEA Cluster program, journal entries for the H027A190003 grant made during January 2022, we noted an adjustment made to reclassify a payroll from October 2021 from fund 111 to Grant H027A19003, which is after the period of performance of the grant.
AUDITOR'S RECOMMENDATION	We recommend that the PRDE establish and monitor the period of performance of their grants, in order to ascertain that no payments are made after the period allowed.
CORRECTIVE ACTION PLAN	<p>PRDE acknowledges the finding and takes full responsibility for the oversight. During the grant's closing process, an unintentional error occurred where the federal program accountant erroneously adjusted a portion of payroll pertaining to October 2021, a period beyond the grant's performance timeline. The erroneously adjusted amount for October 2021 totals \$80,906.91.</p> <p>As part of our commitment to rectify this issue, we are adjusting this balance to the correct grant award. We recognize the importance of adhering to the stipulated timelines and are working diligently to record this adjustment.</p> <p>Also, PRDE is prepared to return the funds to ensure full compliance with grant requirements. We understand the significance of fiscal responsibility and are implementing measures to prevent such errors in the future. Additionally, we will enhance internal controls and provide additional training to our staff involved in the grant closing process to mitigate the risk of similar occurrences. PRDE is committed to transparent communication throughout this process and will keep all relevant personnel involved in this matter informed of the resolution progress.</p>
LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM COMPLETION	<p>Enid Diaz Nieves Executive Director Associate Secretary of Special Education</p> <p>Noelia Cortes Associate Secretary of Special Education</p>
DELIVERABLE	
EVIDENCE INCLUDED YES/NO	Yes
TARGET COMPLETION DATE	Current fiscal year.

FINDING NUMBER	2022-012
AUDITOR'S DESCRIPTION	<p>As part of our audit procedures on internal controls and compliance related to procurement of the IDEA Cluster program, we found the following deficiencies:</p> <ol style="list-style-type: none"> 1. In the selected sample of disbursements of forty-three (43) vouchers related to therapy and other related services, the PRDE provided evidence on the procurement process. From the evaluations submitted to bidders who were awarded the service, it was possible to observe comments and scores indicating that it did not meet the specifications. Specifically, we noted that some proponents received less than 50 points in the evaluation, but it was classified as "recommended". 2. We noted that for two (2) proponents, the evaluation indicated that the proposal didn't comply with the Federal Law Number 108-446. As indicated in the guide to preparing proposals: "Proponent must provide a general idea of how your services will contribute to compliance with Law No. 51 of June 7, 1996, as amended, "Law on Comprehensive Educational Services for Persons with Disabilities", Federal Law No. 108-446, as amended, Individuals with Disabilities Education Improvement Act and with the Stipulation Sentence in the Rosa Lydia Vélez case. In addition, the guide to present proposals required audited financial statements of the proponents, we identified three proponents that did not present the audited financial statements, but the person that evaluated the proposal indicated that the proponent complied. 3. We selected three (3) disbursements for which it applied quotation process. No documentation was provided regarding the process performed.
AUDITOR'S RECOMMENDATION	<p>We recommend that the PRDE establish updated regulations that address the different realities of the PRDE. In addition, we recommend that recurring purchases can be projected to maximize procurement processes, and avoid splitting purchases, which are more expensive for the PRDE.</p>
CORRECTIVE ACTION PLAN	<p>Management Response to Condition #1</p> <p>Management agree with the condition. The DEPR, through the SAEE, has the responsibility of providing educational and related services to students with disabilities in accordance with the provisions of Law No. 51 of June 7, 1996, as amended, "Comprehensive Related Services Law." for Persons with Disabilities", the "Federal Law No. 108-446, as amended, "Individuals with Disabilities Education Improvement Act" and with the ruling by stipulation of the case Rosa Lydia Vélez vs. Department of Education. The SAEE, with the purpose of expanding its resource bank, requested proposals aimed at offering the following services: 1. Evaluation, 2. Intervention, or 3. Evaluation and therapy.</p>

	<p>We understand that the specific needs of special education students often require specialized approaches. Although the proponents did not meet the score established in the formal RFP criteria, their expertise and particular approach were recognized and considered valuable in addressing the unique complexities and challenges our students face. The DEPR for the 2022–2023 fiscal period established a memorandum explaining the particular situations in which service providers, even when they did not meet the score, were selected to be able to offer unique services to students. This memorandum will be made for the proposals established in this condition as a corrective action and will be documented in the corresponding service proposal files.</p> <p>Management Response to Condition #2</p> <p>After reviewing the three proposals, it was identified that the person in charge of the evaluation incorrectly identified the financial statements. The PRDE accepts the finding and will work with the corresponding areas of the evaluations so that the staff is properly instructed on how to distinguish between the different financial reports in order to perform a correct evaluation in accordance with PRDE guidelines.</p> <p>Management Response to Condition #3</p> <p>Management agrees in part with the condition. We recognize that the information was not available for the auditor's observation; however, the processes were performed in accordance with the procedure guidelines established in the PRDE. Furthermore, PRDE will take the necessary steps to obtain the requested documents and make them available for the auditors' observation and analysis. PRDE is committed to reviewing its internal procedures to reinforce the delivery of documents and make them available for future audits.</p>
<p>LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM COMPLETION</p>	<p>Enid Diaz Nieves Executive Director Associate Secretary of Special Education</p> <p>Noelia Cortes Associate Secretary of Special Education</p>
<p>DELIVERABLE</p>	
<p>EVIDENCE INCLUDED YES/NO</p>	<p>Yes</p>
<p>TARGET COMPLETION DATE</p>	<p>In process.</p>

FINDING NUMBER	2022-013
AUDITOR'S DESCRIPTION	The PRDE did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2022 during the required period.
AUDITOR'S RECOMMENDATION	We recommend the PRDE maintain adequate accounting records related to the non-Federal and Federal funds in order to properly prepare the financial statement and SEFA accurately, and in a timely manner. In addition, PRDE needs to implement adequate internal controls procedures in order to ensure that the supporting documentation is available in a timely manner.
CORRECTIVE ACTION PLAN	<p>PRDE agrees with the finding. However, as detailed in our request for extension to our cognizant agency dated March 21, 2023, PRDE has been confronting various challenges that did not allow the filing of the financial statements on time as has been done in previous years.</p> <p>The PRDE is working hard to bring up to date the issuance of financial statements. The different areas in charge of the federal funds, including the Third-Party Fiduciary, are improving the communication channels, processes and supporting documentation necessary to be able to comply with the issuance of financial statements on time as appropriate.</p>
LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM COMPLETION	<p>Evelyn Rodríguez Cardé Finance Director</p> <p>Jullymar Octtaviani Vega Sub-Secretary of Administration</p>
DELIVERABLE	
EVIDENCE INCLUDED YES/NO	Yes
TARGET COMPLETION DATE	June 15, 2024

FINDING NUMBER	2022-014
AUDITOR'S DESCRIPTION	As part of our audit procedures, we interviewed staff responsible for the Child Nutrition Cluster [National School Lunch Program (NSLP) and Summer Food Service Program For Children (SFSP)] programs, and we were told that they had not been submitted the required Federal Funding Accountability and Transparency Act (FFATA) reports during the 2021-2022 fiscal year.
AUDITOR'S RECOMMENDATION	We recommend management to provide training and technical assistance to the personnel they designate to monitor all the funds delegation contracts that meet the requirements to be reported on the FSRs portal, and to be able to keep track of when they had to be reported, the date in which they submitted the information to the portal, and all the elements required to be submitted on the platform.
CORRECTIVE ACTION PLAN	<p>Management acknowledge the finding that PRDE was unaware of the FFATA requirements applicable to the programs during the fiscal year ended. PRDE recognize the importance of the compliance with federal regulations, and steps have been taken to ensure that our team is well-informed about such requirements moving forward.</p> <p>In response to this finding, PRDE are reviewing and enhancing our internal controls to include regular updates on federal regulations, ensuring that our team stays up-to-date with any changes to reporting obligations; and the commitment to continuous monitoring and periodic assessments to ensure ongoing compliance with FFATA requirements.</p> <p>PRDE understand the urgency of addressing this matter and are committed to completing the corrective action measures, this includes the submission of any required reports related to FFATA for the fiscal year ended June 2022 and 2023.</p>
LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM COMPLETION	<p>Odalis Menard Executive Director / Accounting Supervisor</p> <p>Lourdes García Santiago AESAN Director</p>
DELIVERABLE	
EVIDENCE INCLUDED YES/NO	Yes
TARGET COMPLETION DATE	July 30, 2024