

**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, 2023

**(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

Member of:



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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 Eliezer Ramos Parés
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, 2023, 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, 2023, 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, 2023, 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 due 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 Eliezer Ramos Parés, 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 32-38, 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 March 31, 2025, 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
March 31, 2025



DPSC12-34
Department of Education of the
Commonwealth of Puerto Rico



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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, 2023**

	General Fund	Title I Federal Fund	Education Stabilization Fund	Other Federal Governmental Funds	Total Governmental Funds
CASH RECEIPTS:					
Appropriations from the Commonwealth of Puerto Rico	\$ 1,563,628,673	\$ -	\$ -	\$ -	\$ 1,563,628,673
Intergovernmental – Federal Grants	-	388,642,552	1,315,070,180	543,161,546	2,246,874,278
Total Cash Receipts	<u>1,563,628,673</u>	<u>388,642,552</u>	<u>1,315,070,180</u>	<u>543,161,546</u>	<u>3,810,502,951</u>
CASH DISBURSEMENTS:					
Current:					
General Government	34,480,908	-	-	-	34,480,908
Vocational and Technical Education	44,828,765	-	-	13,948,577	58,777,342
Community Schools	681,161,371	354,609,544	1,423,886,149	127,406,525	2,587,063,589
Integrated Educative Services for the Disabled	314,653,289	-	-	196,874,936	511,528,225
Food Services for Students	56,323,886	-	-	168,360,389	224,684,275
Schools' Quality of Life and Drug Free	541,305	-	-	-	541,305
Adult Education	20,317,843	-	-	-	20,317,843
Technological Institutes	3,333,607	-	-	13,744,844	17,078,451
Auxiliary Services and Technical Assistance	5,537,778	-	1,504,974	4,020,409	11,063,161
Institute for Administrative Training and Counseling to Schools	35,230,828	-	-	-	35,230,828
Public Schools' Maintenance	30,932,171	-	-	14,205,354	45,137,525
Printing Services	431,803	-	-	-	431,803
Indirect Costs	33,142,674	-	-	-	33,142,674
Joint Resolutions	155,921,104	-	-	-	155,921,104
Special Accounts	108,742,473	-	-	-	108,742,473
Total Cash Disbursements	<u>1,525,579,805</u>	<u>354,609,544</u>	<u>1,425,391,123</u>	<u>538,561,034</u>	<u>3,844,141,506</u>
NET CHANGES	<u>\$ 38,048,868</u>	<u>\$ 34,033,008</u>	<u>\$ (110,320,943)</u>	<u>\$ 4,600,512</u>	<u>\$ (33,638,556)</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, created 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 2022-2023. 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.
- **Education Stabilization Fund** – The PRDE received funding under the Education Stabilization Fund (ESF), established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act, and the American Rescue Plan (ARP) Act. These funds are intended to support educational institutions in responding to the COVID-19 pandemic. The ESF is administered by the U.S. Department of Education and includes several subprograms, such as:
 - Elementary and Secondary School Emergency Relief (ESSER) Fund
 - Governor's Emergency Education Relief (GEER) Fund
 - Higher Education Emergency Relief Fund (HEERF)

During the fiscal year ended June 30, 2023, the Organization recognized Federal expenditures of \$1,425,391,123 under the ESF. These funds were utilized for eligible purposes, including:

- Addressing learning loss and academic recovery
- Enhancing remote learning capabilities
- Implementing health and safety measures in educational facilities
- Supporting students and faculty affected by the pandemic.

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

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

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, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.
- *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, 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 programmers on the use of their financial and human resources.
- *Institute for Administrative Training and Counseling to Schools* – 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- *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 (OMEPS). Through Joint Resolution No. 3 of August 28, 1990, as amended, the OMEPS 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.

OMEPS 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

On April 29, 2017, Act No.26 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.

continue

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, 2023, these payments for lease agreements amounted to approximately \$74.4 million. Additional rent paid by the PRDE for the leasing of its central offices, other warehouses and parking lots was approximately \$12.8 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, 2023 amounted to \$32.9 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, 2023 amounted to \$7.7 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 than 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 FY2023 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, 2023, 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, 2023 under these lease agreements amounted to approximately \$74.5 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 types 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, 2023, are described below:

Entity Name	Type of Service	Amount
Puerto Rico Aqueduct and Sewer Authority	Water and Sewer Service	\$ 35,203,890
Puerto Rico Electric Power Authority – LUMA	Electric Power Service	40,502,439
Public Building Authority	School's Building Leases	74,479,509
Total		<u>\$ 150,185,838</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.

continue

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 2023.

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, the sponsoring employers should provide for additional funds.
- 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.

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.

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.

continue

9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

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. On the date of the financial statements this amount is still pending to be reimbursed.

In addition, for the year ended June 30, 2021, 2022 and 2023, the auditors determined that costs amounting to \$206,889, \$359,038 and \$1,546,139 are disallowed, respectively. 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 \$29,482 for the fiscal year ending June 30, 2019, that are still pending of final determination of the U.S. Department of Education.

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).

10. COMMITMENTS AND CONTINGENCIES – continuation

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.

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.

10. COMMITMENTS AND CONTINGENCIES – continuation

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.

Fiscal responsibility is a high standard. It is the foundation of Puerto Rico's recovery, the mandate of PROMESA to enable Puerto Rico to prosper, and the essence of effective government. Puerto Rico can and will meet this standard.

The Puerto Rico Government and the Financial Oversight and Management Board for Puerto Rico (the Oversight Board) together have made significant progress in achieving fiscal responsibility, stabilizing Puerto Rico's finances, substantially reducing its debt burden, and making significant strides to reform its civil service. Fiscal responsibility, however, is more than completing the debt restructuring and stabilizing Puerto Rico's finances.

Fiscal responsibility includes reforms that are critical to ensure budgetary discipline in the future, some of which may require legislative action. Fiscal responsibility requires clear spending priorities. No government can pay for everything it wants to do – every government and every legislature must first determine what needs to be done, prioritizing healthcare, education, and economic development.

continue

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

When U.S. Congress passed the bi-partisan Puerto Rico Oversight, Management, and Economic Stability Act of 2016 (PROMESA) that created the Oversight Board, the Governor of Puerto Rico had declared the debt unpayable, and the Government was in default. Decades of economic decline and chronic financial mismanagement left Puerto Rico in crisis, soon exacerbated by natural disasters, including Hurricanes Irma and María in 2017, earthquakes, and the global COVID-19 pandemic in 2020.

According to a U.S. Government Accountability Office (GAO) report from 2018, the causes of the crisis were:

- Inadequate financial management and oversight practices, such as the overestimation of potential revenues and persistent spending in excess of appropriated amounts;
- Prolonged economic contraction, impacted by outmigration and resulting diminished labor force, the high cost of energy and importing goods, regulatory challenges to doing business, the phaseout of the possessions tax credit, and banking and housing struggles; and
- Policy decisions, such as allowing the use of debt proceeds to balance budgets, insufficiently addressing public pension funding shortfalls, and inadequately managing the financial condition of the Puerto Rico Electric Power Authority (PREPA).

EXHIBIT 1: ROOT CAUSES OF THE FISCAL CRISIS AND ACTIONS TO ACHIEVE FISCAL RESPONSIBILITY AND ADEQUATE ACCESS TO CREDIT MARKETS

Prior to PROMESA and for each of the first 16 consecutive years of this century, from fiscal years 2000 to 2016, Government spending exceeded recurring Government revenues. Controls and guardrails, to the extent they existed, were insufficient to prevent overestimation of revenues, excessive borrowing, overspending, and the deficits that eroded Puerto Rico's economic stability. Before PROMESA, Government pensions were not sufficiently funded, putting pension payments for current and future retirees at risk.

As result of these practices, 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.

Puerto Rico has come a long way. Today, Puerto Rico is stable, and the Commonwealth government is solvent. The massive debt is almost completely restructured, a critical element of fiscal responsibility and access to market access.

continue

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

This Fiscal Plan, as mandated by PROMESA, defines the path to complete the journey from bankruptcy to prosperity and to reverse decades of fiscal mismanagement. Completing this path will lead Puerto Rico to sustainable economic growth and opportunity for the people of Puerto Rico right here, in Puerto Rico.

The 2024 Fiscal Plan provides the principles and priorities for Puerto Rico so the Government and the Oversight Board together can fulfill the purpose of PROMESA to achieve fiscal responsibility and adequate access to credit markets, so Puerto Rico will never repeat the mistakes that made PROMESA necessary and has access to investments that will help build a solid infrastructure to improve the quality of life in Puerto Rico and foster economic growth.

This 2024 Fiscal Plan has four parts: (1) Puerto Rico’s progress in stabilizing government finances, (2) the Commonwealth’s current financial conditions and risks, (3) details of the actions required to achieve fiscal responsibility and adequate access to credit markets, and (4) description of the actions the Oversight Board and the Government must take to complete PROMESA’s mandate.

EXHIBIT 2: THE OVERSIGHT BOARD’S PRINCIPAL AREAS OF FOCUS



Financial Stability Accomplishments

The Oversight Board was successful in significantly reducing Puerto Rico’s debt burden through restructuring agreements and plans that were confirmed by the U.S. District Court for the District of Puerto Rico. The Commonwealth of Puerto Rico’s debt has been drastically reduced and made affordable. Through the concerted efforts of the Oversight Board and the Government described below, the debt burden is on course to be reduced to \$31 billion. Prior to the debt restructuring, 25 cents of every tax dollar Puerto Rico raised was needed to pay debt service. The lower debt service on the post-restructuring debt obligations now accounts for approximately 6% of debt policy revenues compared to roughly 25% before the restructuring. All said, the Oversight Board led debt restructuring will save the people of Puerto Rico approximately \$70 billion in principal and interest payments to creditors.

continue

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

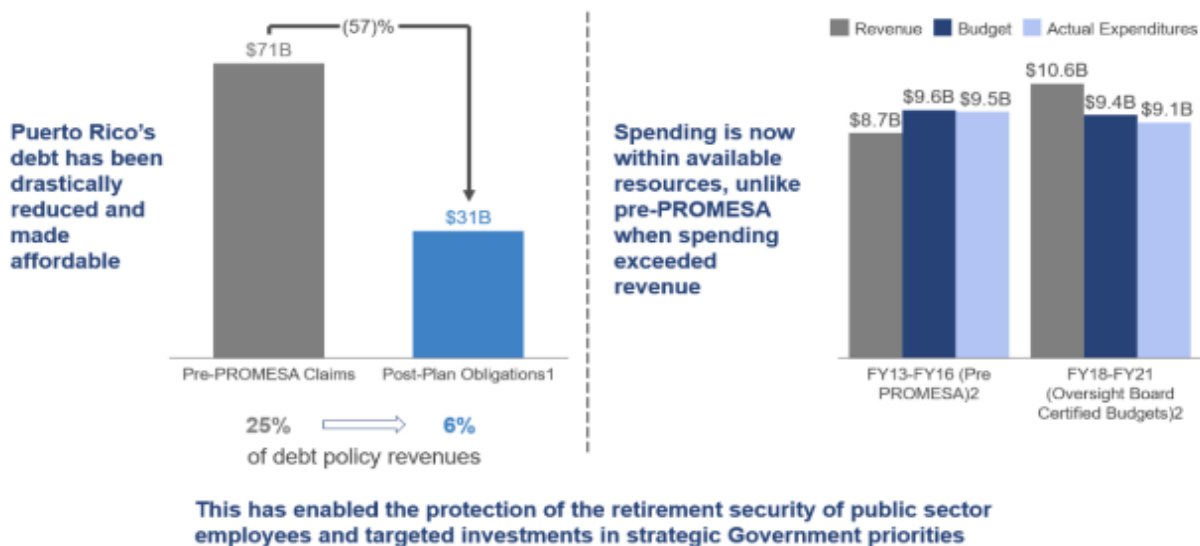
Puerto Rico must not fall back. Stability must turn into recovery. The change that helped Puerto Rico overcome the fiscal crisis must be permanent. Budget reform is essential.

Under the Fiscal Plans and PROMESA certified budgets, Puerto Rico has moved from structural deficits to fiscal stability. The Oversight Board developed a comprehensive process to evaluate budget changes throughout the year to ensure sufficient funding sources are available to support operating needs.

Through the Fiscal Plan, the Government and the Oversight Board made significant investments even as the government budget was rightsized through fiscal year 2022, to fit available resources. Select investments include funding to expand healthcare services, facilities, and infrastructure; police officer and teacher salary increases and new positions for school nurses and psychologists, expanding the Earned Income Tax Credit (EITC) program that benefits low-income households.

The current Government administration has engaged in critical reform initiatives, including the implementation of the Uniform Remuneration Plan across Puerto Rico's civil service, the introduction of private operators to the management of electricity generation and distribution, and the implementation of a uniform time and attendance policy for Government employees.

EXHIBIT 3: SINCE PROMESA, CONSIDERABLE PROGRESS HAS BEEN MADE TOWARDS ACHIEVING FINANCIAL STABILITY



1. In addition to the restructured debt obligations, approximately \$10.6 billion in unused cash from prior fiscal years was paid in accordance with the terms set forth in the Commonwealth Plan of Adjustment.
2. Amounts are 4-year averages of revenue, budget, and actual expenditures.
Section 1 of the 2024 Fiscal Plan

Actions Needed to Achieve Fiscal Responsibility and Adequate Access to Credit Markets

The Oversight Board, in partnership with the Government, has achieved several critical milestones to tend to the symptoms of Puerto Rico's fiscal crisis, yielded billions in surpluses and ensured that the Government and covered entities' expenditures are in line with revenues. However, the Government must still undertake significant work to put in place the practices needed to ensure that this progress is sustained beyond the longevity of the Oversight Board. In particular, the Government must establish robust financial management and oversight practices, while also making targeted investments to promote sustainable and inclusive economic development.

continue

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

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.

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:

The 2024 Fiscal Plan highlights a set of initiatives that aim to ensure the successful pursuit of these objectives. The initiatives are designed to cascade throughout the Government of Puerto Rico and serve as an overarching guide to allocating the resources needed to achieve the Commonwealth’s long-term fiscal and economic outcomes.

Actions to Establish Robust Financial Management and Oversight

The 2024 Fiscal Plan identified eight areas of focus to achieve long-term fiscal responsibility. Success in these areas is critical for Puerto Rico to fully recover from bankruptcy and to fulfil the mandate of PROMESA to achieve fiscal responsibility. The 2024 Fiscal Plan includes initiatives across these eight areas, which aim to address the most crucial financial management challenges that Puerto Rico faces.

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

EXHIBIT 4: LIST OF FOCUS AREAS TO ACHIEVE LONG-TERM FISCAL RESPONSIBILITY

Focus area	Description
Improved economic and revenue forecasting	The Government should assemble its revenue, economic, and budget functions and create a coordinated process to produce and maintain one integrated set of economic and revenue projections over both the short- and long-term.
Budget best practices	The Government must establish a comprehensive framework budget that includes procurement, budgeting, revenue administration, and performance management, and the Office of Management and Budget (OMB) must ensure that all entities adopt best practices in budget preparation.
Comprehensive capital delivery program	The Government must develop and adopt a multi-year capital plan for all its agencies and instrumentalities. The plan would use standardized project prioritization criteria to ensure all investments are aligned with the Government's strategic objectives and with the capacity of Puerto Rico's private sector to absorb investments.
Improved management of education resources	The Government must support high-quality education to Puerto Rico's school children and higher-education students through equitable, fiscally sustainable, and transparent processes.
Improved government service delivery & labor relations	The Government must undertake significant reforms to improve public services in Puerto Rico by building a more efficient civil service and addressing challenges regarding labor relations.
Outcome-based, data-driven, and controlled healthcare spending	The Government must take an active role to support the improvement of public health outcomes and ensure the financial sustainability of Puerto Rico's healthcare system. A plan to address challenges in the health care system is required including an assessment of regulatory and statutory obstacles that contribute to shortcomings in access and quality.
Improved, transparent financial reporting	The Government must address the fiscal management deficiencies and implement procedures and practices that will continue to exist in the post-PROMESA. It must track and report key information about Puerto Rico's financial condition, such as the performance of revenues and expenditures.
Optimized municipal fiscal management	The Government must work with the Oversight Board and municipalities to implement a restructured grant and transfer system that will provide municipalities with a transparent process for the awarding of specific service grants that augment existing municipal service delivery. This envisioned system will also improve performance and enhance accountability through the monitoring of outcome metrics.

continue

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

Actions to Promote Economic Growth

With the debt restructurings near completion, the confusion and uncertainty that has plagued the economy for much of the last decade has subsided. To generate revenues that are resilient even when the current influx of federal funding subsidies, fiscal stability alone will not suffice. The Government will also need to execute targeted investments and implement profound structural reforms to produce sustainable growth, support Government revenues, and prevent debt-financed operating expenditures. The 2024 Fiscal Plan describes an effort to develop an integrated plan that will serve as a roadmap to unlock future growth. While that plan is developed, the Oversight Board and the Government will continue to support specific priorities through a first wave of economic growth initiatives that aim to address the most crucial challenges that Puerto Rico faces.

EXHIBIT 5: LIST OF FOCUS AREAS TO PROMOTE ECONOMIC GROWTH

Focus area	Description
Integrated framework for economic growth	A robust effort that assesses the current situation and positioning of Puerto Rico, consolidates its identified opportunities, and allows for a coordinated integration of economic development efforts, supported by the Oversight Board, the Government, and stakeholders.
Human capital, focused on robust, highly-skilled, and healthy workforce	<p><u>Highly skilled workforce:</u> Government must identify the appropriate funding level and manage existing resources responsibly to reform K-12 education to give all Puerto Ricans the opportunity to develop core competencies in areas such as information synthesis, creativity, problem-solving, communication, and teamwork.</p> <p><u>Healthy workforce:</u> Government must engage key stakeholders to create a roadmap for the improvement of healthcare in Puerto Rico and develop a deep understanding of the situation of the healthcare workforce to appropriately address the shortage of healthcare professionals that Puerto Rico has historically faced.</p> <p><u>Robust workforce:</u> The Government must prioritize initiatives to boost labor force participation, rolling out targeted re-skilling programs for high-growth occupations and creating an environment that encourages public assistance program recipients to work in the formal sector.</p>
Economic strategies, focused on improved ease of doing business	The Government must create an environment that encourages innovation and entrepreneurship, attracts investment, and promotes exports. To increase the ease of doing business in Puerto Rico.
Economic policies, focused on reforms of Puerto Rico's tax system	The Government must reduce the structural complexity of Puerto Rico's tax system, thus reducing the cost of administration and the cost of compliance for private businesses and enhance the transparency of the system by reducing exemptions and the use of special tax regimes.
Infrastructure, focused on reduced cost and increased reliability of energy, transportation, and internet connectivity	Government must prioritize infrastructure initiatives to build resilient and sustainable infrastructure that reduces the cost of energy, transportation, and internet connectivity. Moreover, the Government must optimize the management of existing infrastructure assets, e.g., by improving the regulation of the electric power sector and by consolidating public transportation assets into mode-aligned entities.

continue

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

Completing the Oversight Board's PROMESA Mandate

Prolonged financial stability, necessary to ensure that a debt default and crisis does not happen again in Puerto Rico, will require addressing the root causes described in the 2018 GAO report through the establishment of robust financial management and oversight practices as well as the execution of targeted investments to enhance economic development. The Government must also implement the key structural reforms and confront the reality that the record level of federal fiscal support is waning. Revenue collections appear to have crested, and growth has moderated, highlighting the need for Puerto Rico to focus on accelerating economic growth using its own resources, assets, and capabilities.

Successfully restructuring the vast majority of Puerto Rico's debt is only one step towards achieving fiscal responsibility. It is not enough to declare the mandate completed. The debt was a symptom of a much larger problem: the lack of fiscal responsibility. To complete our mandate, sound fiscal management practices must be accepted and implemented over the long term. For now, only the Oversight Board's presence prevents Puerto Rico from falling back into budget deficits. By the time the Oversight Board terminates, the government must be able to pass and maintain a balanced budget with a long term multiyear financial plan that is in balance to prevent future deficits and the painful adjustments that are so difficult to implement by any elected government.

That is why the Fiscal Plan and the Oversight Board's efforts are now focused on partnering with the Government to complete the reforms required to achieve fiscal responsibility over the long term as required under PROMESA, including the implementation of robust financial management and oversight practices as well as structural reforms, economic growth plans, the advancement and completion of critical projects, and improving the Government's overall economic conditions.

A key element of this Fiscal Plan is to transfer the responsibility to safeguard this balance to Puerto Rico's elected leaders, through significantly strengthened budget processes and guardrails to ensure budgetary discipline enshrined in practice, regulation, and law.

The Oversight Board has consistently been clear that its mandate is finite, and it should only exist until the Oversight Board and the Commonwealth fulfill the requirements of PROMESA. This Fiscal Plan shows the progress the Government has made to fulfill these conditions, the gaps that remain, and the actions the Oversight Board is taking to help the Government close these gaps. Taken together, the actions included in this Fiscal Plan, if thoughtfully implemented, can set the stage for increased growth and opportunity for all in Puerto Rico and the termination of the Oversight Board.

Puerto Rico has come a long way. It is well positioned to take advantage of its current fiscal recovery and the economic upswing to restore sustainable growth and prosperity. Completing the mandate of PROMESA will help to regain trust and restore confidence in the future, and signal to the world the tremendous comeback of Puerto Rico as the shining star of the Caribbean. This Fiscal Plan is the road map to finishing the job.

12. SUBSEQUENT EVENTS

Management believes that the following events should be disclosed:

Modification of Obligation Period

On March 28, 2025, the PRDE received a communication from the USDE regarding a modification to the liquidation period for obligations under the Education Stabilization Fund, including all programs funded by the CRRSA and ARP Acts. According to the communication, the liquidation period was modified to March 28, 2025. This communication was received after an extension had been previously approved by the USDE until March 31, 2026.

continue

12. SUBSEQUENT EVENTS – continuation

On the same date, PRDE responded to the USDE requesting reconsideration of the liquidation period. In its response, PRDE explained that it has been working diligently with the USDE to comply with the previously agreed-upon extended liquidation period. PRDE also outlined, point by point, the reasons why these funds remain unliquidated and the academic and economic significance that this additional time would provide. As of the issuance date of these financial statements, no response has been received regarding the reconsideration request submitted to the USDE.

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 2023 Single Audit report, as required under Subpart F of 2 CFR 200, Audit Requirements.

The Single Audit for fiscal year 2023 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 matter have demanded additional time for thorough examination, resolution, and documentation to ensure the accuracy and completeness of our Single Audit for the year 2023.

The PRDE has evaluated subsequent events through March 31, 2025, 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

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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, 2023

<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		\$ 1,786,861	\$ 20,316,044
National School Lunch Program (NSLP) – Food Donation – Commodities (Non-Cash Assistance)	10.555		-	19,555,739
National School Lunch Program (NSLP)	10.555		7,764,627	124,025,227
<i>Total National School Lunch Program (NSLP)</i>			7,764,627	143,580,966
Summer Food Service Program for Children (SFSP)	10.559		2,512,029	2,667,514
Fresh Fruit and Vegetable Program	10.582		8,108	8,108
<i>Total Child Nutrition Cluster</i>			12,071,625	166,572,632
Other Programs:				
Child and Adult Care Food Program (CACFP)	10.558		18,814,005	19,012,939
State Administrative Expenses for Child Nutrition	10.560		-	2,230,619
Child Nutrition Discretionary Grants Limited Availability	10.579		99,938	99,938
<i>Total U.S. Department of Agriculture Programs</i>			30,985,568	187,916,128
U.S. DEPARTMENT OF TREASURY PROGRAM:				
Puerto Rico Office of Management and Budget – Coronavirus Relief Fund	21.019	N/AV	-	1,647,371
<i>Total U.S. Department of Treasury Program</i>			-	1,647,371
U.S. NATIONAL ENDOWMENT OF THE HUMANITIES PROGRAM:				
Grants to States	45.310		-	1,546,092
COVID-19 – Grants to State	45.310		-	2,684,484
<i>Total U.S. National Endowment of the Humanities Program</i>			-	4,230,576

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, 2023

<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:				
<i>Student Financial Assistance Programs Cluster:</i>				
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		-	112,285
Federal Work-Study Program	84.033		-	160,561
Federal Pell Grant Program	84.063		-	3,703,075
<i>Total Student Financial Assistance Programs Cluster</i>			-	3,975,921
<i>Special Education Cluster (IDEA):</i>				
Special Education – Grants to States (IDEA, Part B)	84.027		-	164,910,415
COVID-19 Special Education – Grants to States	84.027X		-	26,371,392
Special Education – Preschool Grants (IDEA Preschool)	84.173		-	4,086,612
COVID-19 Special Education – Preschool Grants	84.173X		-	1,506,517
<i>Total Special Education Cluster (IDEA)</i>			-	196,874,936
<i>Other Programs:</i>				
Adult Education – Basic Grants to States	84.002		1,042,595	9,514,268
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010		-	354,609,544
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013		-	297,158
Impact Aid (Title VII of ESEA)	84.041		-	961,169
Career and Technical Education – Basic Grants to States (Perkins V)	84.048		-	13,948,577
Education for Homeless Children and Youth	84.196		-	1,168,575
Twenty-First Century Community Learning Centers	84.287		22,450,510	23,547,546
English Language Acquisition State Grants	84.365		-	3,722,947
Supporting Effective Instruction State Grants	84.367		-	52,649,684
Grants for State Assessments and Related Activities	84.369		-	4,419,410
Student Support and Academic Enrichment Program	84.424		-	1,664,682
COVID-19 Education Stabilization Fund: Governors Emergency Education Relief Fund	84.425C		-	47,814,615
COVID-19 Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund	84.425D		-	478,478,694
COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Institutional Portion	84.425F		-	608,017
COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Minority Serving Institutions (MSIs)	84.425L		-	896,957
COVID-19 Education Stabilization Fund: Emergency Assistance to Non-Public School	84.425R		-	4,623,089
COVID-19 Education Stabilization Fund: American Rescue Plan – Elementary and Secondary Schools Emergency Relief Fund (ARP-ESSER)	84.425U		-	890,540,911
COVID-19 Education Stabilization Fund: American Rescue Plan – Elementary Assistance to Non-Public School (ARP-EANS)	84.425V		-	772,562
COVID-19 Education Stabilization Fund: American Rescue Plan – Elementary and Secondary Schools Emergency Relief Fund – Homeless Children and Youth (ARP-HCY)	84.425W		-	1,656,278
<i>Total Education Stabilization Fund</i>			-	1,425,391,123
Hurricane Education Recovery – Immediate Aid to Restart School Operations (Restart) Program	84.938A		-	37,322,983
Hurricane Education Recovery – Emergency Assistance to Institutions of Higher Education	84.938T		-	44,488
<i>Total Hurricane Education Recovery</i>			-	37,367,471
<i>Total U.S. Department of Education Programs</i>			23,493,105	2,130,113,011

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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, 2023

<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 HEALTH AND HUMAN SERVICES PROGRAM:				
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	93.079		-	5,000
Total U.S. Department of Health and Human Services Program			-	5,000
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	-	14,205,354
Total U.S. Department of Homeland Security Program			-	14,205,354
Total Expenditures of Federal Awards			\$ 54,478,673	\$ 2,338,117,440

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, 2023. 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 \$40.6 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 – Food Donation – Commodities (Non-Cash Assistance)	10.555
	National School Lunch Program	10.555
	Summer Food Service Program for Children	10.559
	Fresh Fruit and Vegetable Program	10.582
Student Financial Assistance Programs:	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
	COVID-19 Special Education – Grants to States	84.027X
	Special Education – Preschool Grants (IDEA Preschool)	84.173
	COVID-19 Special Education – Preschool Grants	84.173X

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.

continue

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>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)	\$ 301,241,941
84.365	English Language Acquisition State Grants	3,235,472
84.367	Supporting Effective Instruction State Grants	46,620,118
N/A	Community School Program - State Funds	476,336,785
		<u>\$ 827,434,316</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>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)	\$ 24,522,677
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	2,217
84.287	Twenty-First Century Community Learning Centers	476,975
84.365	English Language Acquisition State Grants	176,500
84.367	Supporting Effective Instruction State Grants	2,189,381
84.424	Student Support and Academic Enrichment Program	111,558
		<u>\$ 27,479,308</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, 2023, could not be submitted in a timely manner.

The Single Audit for fiscal year 2023 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 2023.

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 Eliezer Ramos Parés
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, 2023, and the related notes to the financial statement, which collectively comprise the **PRDE's** financial statement, and have issued our report thereon dated March 31, 2025. 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 item 2023-001 that we consider to be material weakness.

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 Eliezer Ramos Parés, 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 2023-001.

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

March 31, 2025



DPSC12-35

Department of Education of the
Commonwealth of Puerto Rico



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 ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Honorable Eliezer Ramos Parés
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, 2023. 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, 2023.

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 Eliezer Ramos Parés, Secretary

Department of Education

of the Commonwealth of Puerto Rico

Page 2

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. 2023-002 through 2023-009, 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
2023-002	97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, Level of Effort, Earmarking; Period of Performance; Reporting – SEFA	None
2023-003	84.027; 84.173	Special Education Cluster (IDEA)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles	*
2023-004	84.196	Education for Homeless Children and Youth	Allowable Costs/Cost Principles	**
	84.425D	COVID-19 Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund		
	84.425R	COVID-19 Education Stabilization Fund: Emergency Assistance to Non-Public School		
	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 Schools 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 Eliezer Ramos Parés, Secretary

Department of Education

of the Commonwealth of Puerto Rico

Page 3

Finding Reference Number	Assistance Listing Number	Program (or Cluster) Name	Compliance Requirement	Questioned Costs
2023-005	10.553, 10.555, 10.559, 10.582	Child Nutrition Cluster	Allowable Costs/Cost Principles	\$1,802,973 **
	10.560	State Administrative Expenses for Child Nutrition		
	84.002	Adult Education – Basic Grants to States		
	84.010	Title I Grants to Local Educational Agencies (Title I, Part A of the ESSEA)		
	84.027	Special Education – Grants to States (IDEA, Part B)		
	84.048	Career and Technical Education – Basic Grants to States (Perkins V)		
	84.425D	COVID-19 Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund		
	84.938A	Hurricane Education Recovery – Immediate Aid to Restart School Operations (Restart) Program		
2023-006	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		
2023-007	84.027; 84.173	Special Education Cluster (IDEA)	Procurement and Suspension and Debarment	None
2023-008	ALL Major Programs	All Major Programs (See Part I of Schedule of Findings and Questioned Costs)	Reporting	None
2023-009	10.555; 10.559	Child Nutrition Cluster	Reporting	None
		Total Questioned Costs		\$1,802,973

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.

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 due 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.

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

Honorable Eliezer Ramos Parés, Secretary

Department of Education of the Commonwealth of Puerto Rico

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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 2023-002 through 2023-009 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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.

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

Honorable Eliezer Ramos Parés, Secretary

Department of Education of the Commonwealth of Puerto Rico

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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

March 31, 2025



DPSC12-36

Department of Education of the
Commonwealth of Puerto Rico



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:

- ☒ Unmodified Opinion
Modified: ☐ Qualify Opinion
☐ Adverse Opinion
☐ Disclaimer Opinion

Internal control over financial reporting:

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

- ☐ Yes ☒ No
☒ Yes ☐ No
☒ Yes ☐ No

Noncompliance material to financial statements noted?

Federal Awards

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

- ☒ Yes ☐ No

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

- ☐ Unmodified Opinion
☒ Qualified Opinion
- Child Nutrition Cluster
 - Grants to States
 - COVID-19 Grants to States
 - Adult Education Basic Grants to States
 - Special Education Cluster (IDEA)
 - COVID-19 Special Education Cluster (IDEA)
 - Career and Technical Education – Basic Grants to States (Perkins V)
 - Supporting Effective Instruction State Grants
 - COVID-19 Education Stabilization Fund: Governor's Emergency Education Relief Fund
 - COVID-19 Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund
 - 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: Emergency Assistance to Non-Public School
 - 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
 - Disaster Grants-Public Assistance (Presidentially Declared Disasters)
- ☐ Adverse Opinion
☐ Disclaimer Opinion

continue

COMMONWEALTH OF PUERTO RICO

DEPARTMENT OF EDUCATION

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2023

SECTION I – SUMMARY OF AUDITORS' RESULTS

Internal control over Major Federal Programs::

Questioned Costs

- | | | |
|---|---|--|
| • 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 | \$ 1,802,973 <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
45.310	Grants to States
45.310	COVID-19 Grants to States
84.002	Adult Education Basic Grants to States
84.027; 84.173; 84.027X; 84.027X	Special Education Cluster (IDEA)
84.048	Career and Technical Education – Basic Grants to States (Perkins V)
84.367	Supporting Effective Instruction State Grants
84.425C	COVID-19 Education Stabilization Fund: Governor's Emergency Education Relief Fund
84.425D	COVID-19 Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund
84.425F	COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Institutional
	COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Minority
84.425L	Serving Institutions (MSIs)
84.425R	COVID-19 Education Stabilization Fund: Emergency Assistance to Non-Public School
	COVID-19 Education Stabilization Fund: American Rescue Plan – Elementary and Secondary Schools
84.425U	Emergency Relief Fund (ARP-ESSER)
	COVID-19 Education Stabilization Fund: American Rescue Plan – Elementary Assistance to Non-Public
84.425V	School (ARP-EANS)
	COVID-19 Education Stabilization Fund: American Rescue Plan – Elementary and Secondary Schools
84.425W	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:

\$ 7,014,352

Auditee qualified as low-risk auditee?

☐

Yes

☒

No

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2023-001 (See Finding Reference Number 2023-002)
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 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 2023)
COMPLIANCE REQUIREMENTS	ACTIVITIES ALLOWED OR UNALLOWED // ALLOWABLE COSTS/COSTS PRINCIPLES // MATCHING, LEVEL OF EFFORT, EARMARKING // PERIOD OF PERFORMANCE // 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 require 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>
STATEMENT OF CONDITION	<p>The PRDE did not maintain on its' accounting system (SIFDE) complete record of the program financial transactions 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 expenditures did not include the required accounting codes. 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.</p> <p>Also, per inquiries made during our audit, the PRDE staff indicate that matching share contributions related to the program were disbursed to the PRDE by another state agency during the fiscal year were not recorded during the fiscal year and were recorded on the next fiscal year due to lack of adequate identification of the funds received on the PRDE's accounts with the Puerto Rico Treasury Department.</p>

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2023-002 (See Finding Reference Number 2023-001)
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 2023)
COMPLIANCE REQUIREMENTS	ACTIVITIES ALLOWED OR UNALLOWED // ALLOWABLE COSTS/COSTS PRINCIPLES // MATCHING, LEVEL OF EFFORT, EARMARKING // PERIOD OF PERFORMANCE // 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 require 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>
STATEMENT OF CONDITION	<p>The PRDE did not maintain on its' accounting system (SIFDE) complete record of the program financial transactions 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 expenditures did not include the required accounting codes. 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.</p> <p>Also, per inquiries made during our audit, the PRDE staff indicate that matching share contributions related to the program were disbursed to the PRDE by another state agency during the fiscal year were not recorded during the fiscal year and were recorded on the next fiscal year due to lack of adequate identification of the funds received on the PRDE's accounts with the Puerto Rico Treasury Department.</p>

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2023-002 (See Finding Reference Number 2023-001) – continuation
QUESTIONED COSTS	None.
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 have 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 a repeat finding (Findings Reference Numbers 2022-003).
RECOMMENDATIONS	The PRDE must revise 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>The Puerto Rico Department of Education (PRDE) acknowledges the deficiencies identified during the audit regarding the recording and reporting of financial transactions under the specified disaster recovery federal programs. Specifically, PRDE recognizes the lack of complete and accurate records in the SIFDE accounting system, including the absence of federally required accounting codes—such as those identifying the Assistance Listing Numbers—and delays in recognizing matching share contributions received from another state agency. These weaknesses impacted the timely and accurate preparation of the Schedule of Expenditures of Federal Awards (SEFA) and financial statements.</p> <p>To address these issues, PRDE will revise and strengthen its accounting and internal control procedures for federally funded programs. As a first step, the Finance Office, in collaboration with the Infrastructure Office, will develop and implement a formalized internal procedure to ensure that all financial transactions related to federal awards are recorded timely and accurately using the correct accounting codes, including those that identify the federal program, Assistance Listing Number, and other required attributes under 2 CFR §200.302. These revised procedures will include detailed instructions for coding federal expenditures and ensuring that such codes are embedded within the financial management system at the time of transaction entry.</p>

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2023-002 (See Finding Reference Number 2023-001) – continuation

Finally, PRDE will provide training to both Infrastructure and Finance staff involved in the management of federal funds. Training topics will include federal financial management requirements, SEFA preparation, internal controls, and accurate coding of transactions. Full implementation of these corrective actions is expected by June 30, 2025, ensuring strengthened compliance and financial reporting going forward

IMPLEMENTATION DATE In Process

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

Evelyn Rodríguez Cardé
Finance Director

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2023-003
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	H027A200003 (07/01/2020 – 09/30/2021); H027A210003 (07/01/2021 – 09/30/2022); H173A200003 (07/01/2020 – 09/30/2021); H173A210003 (07/01/2021 – 09/30/2022)
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	<p>As part of our procedures over internal controls and compliance for the allowable activities' requirement, we selected a sample of seventy-nine (79) disbursements to suppliers made during the fiscal year under audit. We noted the following deficiencies:</p> <ol style="list-style-type: none"> 1. In nineteen (19) disbursement receipts related to evaluation and therapy intervention services, service sheets with the signature or stamp of the institution that provided the services were not found. In the case where the service to the participant was provided in the facilities of the institution, only the therapist signed, there was no signature from the parent or guardian indicating that the therapy was received. 2. In seven (7) disbursement vouchers for different concepts, we could not validate which PRDE personnel authorized the disbursements, since in SIFDE the information on the authorizations was blank. 3. In a disbursement voucher, the master excel sheet and MIPE presented adjustments for \$240.00, however, in the adjustment report they only presented \$140.00. No justification was found for the difference of \$100.00. 4. In an evaluated disbursement voucher, a student was included who is billed \$34,000 per month. In the student's file in MIPE, there is no breakdown of how the institution arrived at that amount in its service quote. The average monthly payments at that institution fluctuate between \$9,300 and \$20,800 per month. We were not provided with evidence of the educational cost analysis for this participant. 5. In two (2) disbursements, no evidence of attendance sheets of participants was found in MIPE, in order to corroborate the costs invoiced.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2023-003 – continuation
	<ol style="list-style-type: none"> 6. In three (3) evaluated vouchers, the cost per student could not be validated with the supplier's proposal per student, since it was not located in MIPE. 7. In two (2) disbursement vouchers, the payments to the suppliers for therapy services does not match the cost assigned by contract for these services. 8. In a disbursement voucher, the educational cost of a participant is not consistent with the proposal that the Institution includes in MIPE. 9. In two disbursements related to educational services, we found on the master sheet three (3) participants who indicate that the educational service was provided in another institution with the same teacher who teaches classes at the institution that is billing. 10. In three (3) evaluated disbursements related to intervention and therapy services, the billed costs for therapies did not match the contracted costs. Additionally, no evidence was found of billed costs for educational services in the MIPE system. 11. In two (2) disbursement vouchers evaluated related to educational services, we were not provided with evidence of the tuition and monthly costs of the students, nor was there evidence of receipt by Department staff showing that the services were received as contracted. 12. In thirty-three (33) 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.
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	<p>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.</p> <p>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.</p>
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.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2023-003 – continuation

IDENTIFICATION OF
REPEAT FINDING

This is a repeat finding (Finding Reference Number 2022-005).

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

The Puerto Rico Department of Education (PRDE) acknowledges the deficiencies identified during the audit related to disbursements under the IDEA Cluster programs. These issues primarily relate to incomplete documentation supporting the allowability of expenditures, inconsistencies between invoiced and contracted costs, missing evidence of service delivery and approvals, and incorrect program coding between the 84.027 and 84.173 grants.

To address these findings, PRDE will develop and implement standardized written procedures and internal control procedures for the review, approval, and documentation of educational and therapeutic services. These procedures will clearly define the documentation required for each disbursement, including service logs with appropriate signatures, attendance records, cost proposals, tuition breakdowns, and supporting contracts. Regional staff will be trained on the existing guidelines, with emphasis on uploading complete supporting documentation to both the SIFDE accounting system and the MIPE platform. Training will be conducted by the Special Education Program and include real-case scenarios to promote consistency and accuracy across all regions.

To correct deficiencies related to missing authorization and incomplete audit trails, PRDE will revise user roles and workflows in SIFDE to ensure all disbursement records include evidence of authorized review by PRDE personnel. A checklist for verification and approvals will be incorporated into the voucher processing steps and validated before any disbursement is finalized.

Regarding the inaccurate grant coding between the 84.027 and 84.173 programs, PRDE will implement a revised cost allocation methodology that assigns expenses based on participant age, in alignment with the program's funding requirements. The updated procedures will include automated checks in the accounting system to alert users when the program code selected does not match the student's age group or program eligibility. Additional training will be provided to accounting and program staff on the proper allocation of costs between IDEA Part B (84.027) and Preschool (84.173).

PRDE is committed to improving its internal controls, documentation practices, and training programs to ensure that expenditures under federal awards are adequately supported and appropriately recorded. All corrective actions outlined above are scheduled to be fully implemented by December 30, 2025.

IMPLEMENTATION DATE

In Process

RESPONSIBLE PERSON

Enid Díaz Nieves
Executive Director III
Administration and Transportation Unit

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2023-004
FEDERAL PROGRAMS	(ALN – 84.010) TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES (TITLE I, PART A OF THE ESEA) (ALN – 84.013) TITLE I STATE AGENCY PROGRAM FOR NEGLECTED AND DELINQUENT CHILDREN AND YOUTH (ALN – 84.196) EDUCATION FOR HOMELESS CHILDREN AND YOUTH (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 (FORMERLY IMPROVING TEACHER QUALITY STATE GRANTS) (ALN 84.424) STUDENT SUPPORT AND ACADEMIC ENRICHMENT PROGRAM (ALN – 84.425D) COVID-19 EDUCATION STABILIZATION FUND: ELEMENTARY AND SECONDARY SCHOOL EMERGENCY RELIEF FUND (ALN – 84.425R) COVID-19 EDUCATION STABILIZATION FUND: EMERGENCY ASSISTANCE TO NON-PUBLIC SCHOOLS (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) U.S. DEPARTMENT OF EDUCATION
AWARD NUMBERS	S196A210040 (07/01/2021 – 09/30/2022); 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); CONSOLIDATED FUNDS
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.

continue

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2023-004 – continuation

STATEMENT OF CONDITION

During our internal control and compliance tests of disbursements for Federal programs, we selected four (4) 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 a 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 RATE CALCULATED
01096148	7/14/2022	\$ 3,495,833.00	830311-2022-14	6/1/2022	May 2022	10,021.33	\$ 3,495,833.00	\$ 181,018.08	\$ 330.78
23AP0028	7/21/2022	3,495,833.00	830311-2022-15	7/1/2022	June 2022	10,468.08	3,495,833.00	321,222.44	303.27
01109884	8/30/2022	3,495,833.00	830311-2022-16	8/5/2022	July 2022	10,715.62	3,495,833.00	137,087.31	313.44
01112413	9/22/2022	3,495,833.00	830311-2022-17	9/1/2022	August 2022	10,792.00	3,495,833.00	143,843.37	310.60
01117295	10/20/2022	3,495,833.00	830311-2022-18	10/1/2022	September 2022	8,755.00	3,495,833.00	118,237.21	385.79
01120635	11/28/2022	3,495,833.00	830311-2022-19	11/5/2022	October 2022	7,718.10	3,495,833.00	122,499.59	437.07
01125019	1/11/2023	3,495,833.00	830311-2022-20	12/5/2022	November 2022	7,399.21	3,495,833.00	110,766.32	457.49
01133398	1/27/2023	3,495,833.00	830311-2022-21	1/5/2023	December 2022	7,455.70	3,495,833.00	98,063.66	455.73
01135445	3/3/2023	3,495,833.00	830311-2023-22	2/5/2023	January 2023	7,894.00	3,495,833.00	169,876.63	421.33
01140237	3/23/2023	3,495,833.00	830311-2-23-23	3/5/2023	February 2023	8,520.00	3,495,833.00	217,146.24	384.82
01148591	5/26/2023	3,491,794.28	830311-2023-24	4/5/2023	March 2023	10,808.34	3,491,794.28	42,711.67	319.11
01148593	6/8/2023	4,038.72	830311-2023-24A	4/5/2023	March 2023	-	4,038.72	-	-
01163611	6/8/2023	2,995,833.33	830311-2023-25	5/5/2023	April 2023	7,398.52	2,995,833.33	584,656.79	325.90
01167982	6/28/2023	2,995,833.33	830311-2023-26	6/5/2023	May 2023	7,809.41	2,995,833.33	532,677.90	315.41
		<u>\$ 44,445,829.66</u>					<u>\$ 44,445,829.66</u>	<u>\$ 2,779,807.21</u>	

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

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2023-004 – continuation

State Fund	CONSOLIDATED FUNDS					TOTAL ALLOCATED AMOUNT
	(SEA/LEA)	ALN 84.425D	ALN 84.425U	ALN 84.425W	ALN 84.196A	
\$ 3,495,833.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,495,833.00
3,495,833.00	-	-	-	-	-	3,495,833.00
-	3,358,596.34	-	-	103,060.96	34,175.70	3,495,833.00
-	3,495,833.00	-	-	-	-	3,495,833.00
3,495,833.00	-	-	-	-	-	3,495,833.00
3,495,833.00	-	-	-	-	-	3,495,833.00
3,495,833.00	-	-	-	-	-	3,495,833.00
3,495,833.00	-	-	-	-	-	3,495,833.00
3,495,833.00	-	-	-	-	-	3,495,833.00
3,491,794.28	-	-	-	-	-	3,491,794.28
-	4,038.72	-	-	-	-	4,038.72
-	978,821.06	517,012.27	1,500,000.00	-	-	2,995,833.33
-	1,000,000.00	-	1,995,833.33	-	-	2,995,833.33
<u>\$31,458,458.28</u>	<u>\$ 8,837,289.12</u>	<u>\$ 517,012.27</u>	<u>\$ 3,495,833.33</u>	<u>\$ 103,060.96</u>	<u>\$ 34,175.70</u>	<u>\$44,445,829.66</u>
70.78%	19.88%	1.16%	7.87%	0.23%	0.08%	

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 830311-2023-25 the amount of \$2,017,012 (67% of total invoice amount) was charged 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. In addition, several invoices for a total amount for the year of \$8,837,289 or 19.88% of total payments were charged to Consolidated Funds which includes several federal programs that could be incurred in unallowed costs.

QUESTIONED COSTS

Undetermined.

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. During fiscal year 2023 there were 3 amendments to the original contract where it was agreed to pay a total fee of \$2,995,833 for the months of April and May 2023 and the total amount of \$23,333,333 for 10 additional months or \$2,333,333 monthly from June 2023 to March 2024. Based on the inconsistent cost allocation method and the lack of a requirement of the payments being made for actual works performed, we considered this a systematic problem in the contract management and payment. Based on the inconsistent cost allocation method and the lack of a requirement of 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 nine (9) invoices for a total amount of \$31,458,458 were paid from non-Federal funds, during the fiscal year. In accordance with the documentation provided the allocation used is based on the budget amounts available from state and Federal funds; during this fiscal year the total amount paid to the supplier was \$44,445,830 of this amount 70.78% was covered with state funds, 19.88% with consolidated activities funds, and 9.34% with Federal programs funds.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2023-004 – continuation

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 2022-008).

RECOMMENDATIONS

We recommend to the PRDE to establish an adequate and consistent allocation method of each invoice amount that reflects 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 charged for 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

The PRDE does not agree with the Recommendation to establish an allocation method for TPFA invoices because 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. 2023-004

As stated in CONDITION 2., "...on invoice 830311-2023-25 the amount of \$2,017,012 (67% of total invoice amount) was charged 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."

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2023-004 – continuation

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.

IMPLEMENTATION DATE None

RESPONSIBLE PERSON Jullymar Octtaviani Vega
Sub-Secretary of Administration

María de los Angeles Lizardi Valdés
OFA Director

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2023-005
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 (ALN – 10.560) STATE ADMINISTRATIVE EXPENSES FOR CHILD NUTRITION U.S. DEPARTMENT OF AGRICULTURE</p> <p>(ALN – 84.002) ADULT EDUCATION – BASIC GRANTS TO STATES (ALN – 84.010) TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES (TITLE I, PART A OF THE ESSEA) (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 – 84.425D) COVID-19 EDUCATION STABILIZATION FUND: ELEMENTARY AND SECONDARY SCHOOL EMERGENCY RELIEF FUND (ALN – 84.425U) COVID-19 EDUCATION STABILIZATION FUND: AMERICAN RESCUE PLAN – ELEMENTARY AND SECONDARY SCHOOL EMERGENCY RELIEF FUND (ARP ESSER) (ALN – 84.938A) HURRICANE EDUCATION RECOVERY – IMMEDIATE AID TO RESTART SCHOOL OPERATIONS (RESTART) PROGRAM U.S. DEPARTMENT OF EDUCATION</p>
AWARD NUMBERS	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); 1PRAEA22SCESUBA (10/01/2022-09/30/2023); 221PR300336E_A (10/01/2022-10/30/2024); H027A18003 (07/01/2018 – 09/30/2019); H027A19003 (07/01/2019 – 09/30/2020); H027A20003 (07/01/2020 – 09/30/2021); H027A21003 (07/01/2021 – 09/30/2022); S010A140052 (07/01/2014-09/30/2015); S010A170052 (07/01/2017-09/30/2018); S010A180052 (07/01/2018-09/30/2019); S425D200029 (06/16/2020 – 09/30/2021); S425D210029 (01/05/2021 – 09/30/2022); S425U210029 (03/24/2021-09/30/2023); S938A180002 (04/26/2018-04/26/2020); V002A180053 (07/01/2020-09/30/2021); V048A180052 (07/01/2018-09/30/2019).
COMPLIANCE REQUIREMENT	ALLOWABLE COSTS/COSTS PRINCIPLES
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	<p>2 CFR Section 200.403 (g) 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 200.1, defines improper payments as a payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. The term improper payment includes any payment to an ineligible recipient, any payment for ineligible goods or service, any duplicate payment, any payment for a good or service not received (except for those payments where authorized by law), any payment that is not authorized by law, and any payment that does not account for credit for applicable discounts.</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 \$4,484,606 and an incorrect payment made to a supplier in the amount of \$1,546,139. Invoices issued during the fiscal year ended June 30, 2023 balance, were distributed as federal and state, as follows:</p>

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2023-005 – continuation

Assistance Listing Number	Program Description	Transaction Balance
10.553/ 10.555/ 10.559/ 10.582	Child Nutrition Cluster	\$ 172,473
10.560	State Administrative Expenses for Child Nutrition	951
84.002	Adult Education - Basic Grants to States	761
84.010	Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	1,547,590
84.027	Special Education - Grants to States (IDEA, Part B)	33,003
84.048	Vocational Education - Basic Grants to States	1,081
84.425D	Elementary and Secondary School Emergency Relief Fund (ESSER)	39,198
84.425U	American Rescue Plan – Elementary and Secondary Schools Emergency Relief Fund (ARP ESSER)	7,003
84.938A	Immediate Aid to Restart School Operations (Restart) Program	913
Not Determined	Schoolwide Program (State and Federal Funds)	3,063,584
Not Determined	Consolidated Funds (State and Federal Funds)	9,583
Not Applicable	State Funds	1,154,605
Total Invoices Issued Balance at 06/30/2023		<u>\$ 6,030,745</u>

QUESTIONED COSTS

Identified questioned costs are \$256,834, which were identified as employees that didn't work for the Federal program. Other amount may be unallowed, if the PRDE can identify the portion of Federal funding incurred in Schoolwide and Consolidated activities. Total questioned costs of \$1,546,139 are related to the supplier payment for no compliance with the contract terms and conditions.

PERSPECTIVE INFORMATION

The amount of \$4,484,606, corresponds to incorrect payroll payments made from prior years, for which during fiscal year 2022-2023, 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.

The amount of \$1,546,139, corresponds to incorrect payment made in the fiscal year 2015-2016, for which an investigation took place during the year 2022 and that determined that the contractor do not comply with the contract terms and conditions because it billed for services provided prior to the formalization of the contract, during non-school hours or on days when there were no classes, even on days other than the teachers' and workshop facilitators' hours.

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.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2023-005 – continuation

Regarding the supplier payment, an investigation was conducted related to the billing for workshop services to DEPR students and it was determined that the total amount of invoice number 001-2015-2016 should be adjusted and recovered due to irregularities in the supporting documents included by the supplier as part of the invoice. The PRDE does not have adequate internal controls through the payment process in the system to validate that the suppliers' invoices comply with the terms and conditions of the contract and that the services were actually provided and on the corresponding dates.

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

The PRDE incurred in a payment to a supplier that does not comply with the contract terms and conditions, and for services that were not received with federal funds.

IDENTIFICATION OF REPEAT FINDING This is a repeat finding (Finding Reference Number 2022-009).

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. We also recommend the PRDE to design and implement adequate internal controls to validate the information included in the supplier invoices even if the system is used for the supplier payment process.

VIEWS OF RESPONSIBLE OFFICIALS Management agrees with audit finding and implements 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.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2023-005 – continuation

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

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

Implemented

RESPONSIBLE PERSON

Wilfredo Falcón
Director of the Time and Attendance Office (TAL)

Giovanni Siárez Fuentes
Subdirector Payroll

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2023-006
FEDERAL PROGRAM	(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 NUMBER	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 OR SPECIFIC REQUIREMENT	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.
CONDITION	<p>As part of our procedures on equipment requirements, we requested an inventory of equipment from the PRDE as of June 30, 2023. No inventory was taken since 2019. The PRDE provided a list of all additions made during the fiscal year..</p> <p>We selected a sample of forty (40) 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. An electric dryer, purchased in November 2022, is still uninstalled, as the classroom lacks the necessary connection. 2. One item could not be observed, as the classroom teacher was not present. <p>We selected a sample of forty (40) 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. There was one (1) item of equipment with an assigned property number, which could not be observed. PRDE staff told us that the equipment was never delivered and the purchase was canceled; however, the equipment does have a property number on the list provided by the PRDE. 2. An item purchased (electric skillet) costing \$17,995 was purchased in April 2023, and at the time of our testing, March 2025, it was stored in a warehouse without being used.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2023-006 – continuation
	<p>3. An item costing \$8,750 was purchased in June 2023, however, at the time of our test, March 2025, the equipment was not installed.</p> <p>4. Three (3) items delivered to a private institution were observed, but they are not in use, as the institution closed operations in August 2024.</p>
QUESTIONED COSTS	None.
CONTEXT	No inventory taken was provided, the last inventory was made in 2019, which reflected deficiencies. Deficiencies identified are a systemic problem. Items purchased during fiscal year under audit were not located, no proper tracking of transfer of equipment is maintained in the PRDE .
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.
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 AS A REPEAT FINDING	This is a repeat finding (Finding Reference Number 2022-010).
RECOMMENDATION	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.
VIEWS OF RESPONSIBLE OFFICIALS	<p>The Puerto Rico Department of Education (PRDE) acknowledges the deficiencies noted during the audit procedures related to equipment management and safeguarding under the IDEA Cluster and ESSER Program. As part of its commitment to ensuring compliance with federal equipment requirements, PRDE's Property Office will implement several corrective actions to address the issues identified and improve internal controls over inventory and asset management.</p> <p>For items not currently in use—such as the electric dryer, electric skillet, and other uninstalled equipment—the Property Office has initiated the process of relocating and transferring these items to eligible educational institutions that can make immediate and effective use of them. This includes coordination with program areas to assess current needs and facilitate proper installation or repurposing to ensure compliance with usage requirements and avoid further delays in utilization. In the specific case of equipment delivered to a private institution that ceased operations in August 2024, the Property Office will proceed with the recovery and reallocation of these assets to ensure that federally funded equipment continues to support eligible program activities.</p> <p>Regarding the item listed as delivered but never received, PRDE confirms that the Property Office has already made the necessary corrections in the property inventory system to accurately reflect the status of the item. This ensures that future inventory reports do not include equipment that was never physically delivered, avoiding confusion during audits and maintaining an accurate asset ledger.</p>

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2023-006 – continuation

For the instances where audit observation could not be completed due to personnel unavailability or classroom access limitations, the Property Office will enhance coordination and communication with school-based staff to ensure that all relevant personnel are available during audit site visits. This includes implementing a scheduling and notification protocol that guarantees the presence of classroom teachers or designated personnel to facilitate timely observation and verification of equipment.

Lastly, PRDE is committed to completing an inventory of the equipment of the entire system. As such, the Property Office is currently conducting inventory activities, which are being carried out internally by Agency staff. School directors are responsible for performing the inventories and ensuring that equipment is properly stored and managed within their schools. Once the school directors complete the inventory, they upload the information into a module within PRDE's Financial System (SIFDE)

IMPLEMENTATION DATE In Process

RESPONSIBLE PERSON Nilda Z. Morales Vázquez
Director of Property Office

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2023-007
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	H027A200003 (07/01/2020 – 09/30/2021); H027A210003 (07/01/2021 – 09/30/2022); H173A200003 (07/01/2020 – 09/30/2021); H173A210003 (07/01/2021 – 09/30/2022).
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	<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. We selected five proposals reviewed and approved by Special Education staff, related to educational and related services. We found the following deficiencies: <ol style="list-style-type: none"> a. One proposal was not available for our review. b. We noted that four proposals did not provide evidence of audited financial statements, as required in the "Request for Proposals". 2. We selected ten (10) proposals evaluated and approved by Special Education staff, related to educational and related services. We found the following deficiencies: <ol style="list-style-type: none"> a. Two (2) proposals that received an 80% evaluation failed to mention years of experience or how they will address the PRDE's five (5) most pressing needs. b. Three (3) proposals failed to provide evidence of audited financial statements. c. One (1) proposal that received a 94% evaluation failed to provide information on available special education staff. 3. In addition, we observed that estimated costs are presented in all proposals related to educational services do not reflect reasonableness among institutions. It was observed that costs can vary from \$1,800 to \$34,000 for similar services provided at different institutions, per participant.
QUESTIONED COSTS	None.
PERSPECTIVE INFORMATION	This is a systemic deficiency.
STATEMENT OF CAUSE	The PRDE has not provided training to the staff who will evaluate the proposals so that they understand the requirements being requested.
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.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2023-007 – continuation

IDENTIFICATION OF
REPEAT FINDING

This is a repeat finding (Finding Reference Number 2022-012).

RECOMMENDATIONS

We recommend that the **PRDE** provide trainings to the personnel in charge of reviewing the proposals. In addition, proper documentation should be maintained when approving educational services to participants, in order to ascertain that reasonable costs are incurred for the services provided and in accordance with the proposals evaluated and approved by the committee.

VIEWS OF RESPONSIBLE
OFFICIALS

The Puerto Rico Department of Education (PRDE) acknowledges the deficiencies identified during the audit related to the procurement process for educational and related services under the IDEA Cluster programs. The Department is committed to strengthening its internal controls and ensuring that all procurement activities are conducted in full compliance with 2 CFR Section 200.317 and applicable state procurement regulations.

To address the missing and incomplete documentation noted in the reviewed proposals, PRDE will reinforce its procedures for maintaining all relevant procurement records, including complete proposals, evaluation documentation, and required attachments such as audited financial statements. Going forward, proposals that do not meet all mandatory submission criteria, as outlined in the Request for Proposals (RFP), will be deemed non-compliant and excluded from evaluation. This step will ensure that all vendors are held to consistent and transparent standards during the selection process.

Additionally, the Department recognizes the importance of evaluating proposals based not only on scoring metrics but also on the substance of the vendors' responses. For this reason, PRDE will revise its evaluation rubrics and scoring guides to include clear requirements related to vendors' experience, alignment with the Department's stated priorities, and the availability of qualified special education staff. Evaluation committees will receive updated templates and instructions to document how each proposal meets these specific criteria.

To address the concern regarding cost reasonableness, the PRDE will conduct a cost analysis review of previously approved proposals to establish benchmarks for comparable services. These benchmarks will serve as reference points in future evaluations to identify outlier costs and ensure equitable pricing across institutions. Cost proposals that deviate significantly from established standards will require justification and documentation of value-added components before approval.

Finally, PRDE will provide targeted training to all personnel involved in proposal evaluation and procurement processes, with an emphasis on regulatory compliance, documentation standards, and cost reasonableness analysis. This training will be developed and delivered by the Procurement Office in coordination with the Special Education Program and Legal Affairs. All corrective actions are expected to be implemented by June 30, 2025, and monitored on an ongoing basis to ensure continuous compliance and improvement in procurement practices.

IMPLEMENTATION DATE

In Process

RESPONSIBLE PERSON

Christopher Mena Lantigua

Daiber Carrion Muñoz

Director of Compliance Associate Secretary of Special Education/Central Level

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2023-008
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, 2023 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 a repeat finding (Finding Reference Number 2022-013).
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>The Puerto Rico Department of Education (PRDE) acknowledges the delay in submitting the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse for the fiscal year ending June 30, 2023. PRDE is aware of the importance of timely and accurate reporting in accordance with 2 CFR § 200.512 and will take all necessary actions to prevent delays in future submissions.</p> <p>To address this issue, PRDE will implement a corrective plan focused on improving internal timelines, accountability, and documentation availability. The Department will establish a centralized schedule for Single Audit-related activities, which include interim deadlines for the preparation and review of the financial statements, Schedule of Expenditures of Federal Awards (SEFA), and other components of the reporting package.</p>

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2023-008 – continuation

Additionally, PRDE will strengthen its internal control procedures by assigning a team within the Finance Office to oversee audit coordination and reporting compliance. This team will ensure that supporting documentation and accounting records are compiled continuously throughout the year, allowing the Department to respond efficiently to auditor requests and avoid last-minute delays. Enhanced collaboration with other divisions, including Federal Programs, Budget, and Human Resources, will streamline access to required information.

Finally, PRDE will provide training to financial and programmatic personnel involved in the audit and reporting process to ensure awareness of reporting requirements, documentation standards, and the importance of timely submission. These combined efforts aim to achieve full compliance with 2 CFR § 200.512 in future audit cycles. The corrective actions are scheduled for full implementation by June 30, 2025

IMPLEMENTATION DATE In Process

RESPONSIBLE PERSON Evelyn Rodriguez Cardé
Finance DirectorJullymar Octtaviani Vega
Sub-Secretary of Administration

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2023-009
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	231PR300306S (07/20/2022 – 06/30/2023)
COMPLIANCE REQUIREMENT	REPORTING – FFATA
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	In accordance with 2 CFR Part 170, establishes 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.fsr.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 2022-2023 fiscal year.
QUESTIONED COSTS	None
PERSPECTIVE INFORMATION	During the fiscal year, the PRDE awarded approximately sixty-four (64) awards [39 under the National School Lunch Program (NSLP) and 25 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 2023.
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 a repeat finding (Finding Reference Number 2022-014).
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 2023-009 – continuation

VIEWS OF RESPONSIBLE
OFFICIALS

PRDE acknowledges the oversight in failing to comply with the Federal Funding Accountability and Transparency Act (FFATA) reporting requirements related to first-tier subawards under the Child Nutrition Cluster. To address this deficiency and strengthen internal controls, the PRDE will take comprehensive corrective actions. First, the Department will develop and implement formal written policies and procedures that clearly outline the FFATA reporting process. These procedures will include criteria for identifying reportable subawards—specifically, those of \$30,000 or more—as well as the required timeline for submission, which mandates reporting no later than the end of the month following the month in which the obligation was made. Additionally, these procedures will define the roles and responsibilities of designated personnel and their backups to ensure reporting continuity and accountability.

To support the successful implementation of these procedures, PRDE will provide targeted training to key staff members involved in the management of federal grants, procurement, and reporting functions. This training will cover FFATA requirements, navigation and use of the FSRS.gov reporting system, and key deadlines to ensure timely and accurate reporting.

The Program will also establish a monthly review process to verify compliance with reporting requirements and ensure that appropriate documentation is retained as evidence of submission. This will include the use of a standardized checklist and reporting calendar to manage deadlines and review cycles. Lastly, the Department will improve communication with subrecipients by establishing a formal mechanism to inform them of FFATA-related responsibilities and any documentation that may be required from their end. These collective actions are expected to remediate the finding and build a sustainable compliance structure by the estimated completion date of June 30, 2025.

IMPLEMENTATION DATE

June 30, 2025

RESPONSIBLE PERSON

Odalís Menard
AESAN Director

Lourdes García Santiago
AESAN Sub-Director

END OF SCHEDULE

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(1) AUDIT FINDINGS THAT HAVE BEEN FULLY CORRECTED:

NONE

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED:

Findings Related to the Financial Statement:

FISCAL YEAR 2018

Finding Reference Number	2018-001
Type of Finding	Noncompliance and Significant Deficiency – Allowable Costs/Costs Principles
U.S. Department of Education	(ALN – 84.027, 84.173) 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.
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
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
Type of Finding	Noncompliance and Significant Deficiency – Allowable Costs/Costs Principles
U.S. Department of Education	(ALN – 84.027) Special Education – Grants to State (IDEA, Part B)
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.
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.

continue

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

**SUMMARY SCHEDULE OF PRIOR AUDITS' FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

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

FISCAL YEAR 2019

Finding Reference Number	2019-001
Type of Finding	Noncompliance and Significant Deficiency – Allowable Costs/Costs Principles
U.S. Department of Education	(ALN – 84.027) Special Education – Grants to States (IDEA, Part B) – 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.
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.

FISCAL YEAR 2021

Finding Reference Number	2021-001 Significant Deficiency
Type of Finding	Significant Deficiency
Statement of Condition	<p>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:</p> <ol style="list-style-type: none"> 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 calculate 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.

continue

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

Finding Reference Number 2021-002

Type of Finding 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.
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 performs 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.

continue

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

FISCAL YEAR 2022

Finding Reference Number 2022-001

Type of Finding Material Weakness

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

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:
 - 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.

Recommendations 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.

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

Finding Reference Number 2022-002 (See Finding Reference Number 2022-003)

Type of Finding Material Weakness and Reportable Instance of Noncompliance – Activities Allowed or Unallowed // Allowable Costs/Costs Principles // Reporting – Schedule of Expenditures of Federal Awards

U.S. Department of Homeland Security

(ALN – 97.036) Disaster Grants-Public Assistance (Presidentially Declared Disasters)
PASS-THROUGH: PUERTO RICO CENTRAL OFFICE FOR RECOVERY, RECONSTRUCTION AND RESILIENCY (COR3)

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.

continue

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

Findings Related to the Federal Awards:

FISCAL YEAR 2018

Finding Reference Number	2018-001
Type of Finding	Material Weakness and Reportable Instance of Noncompliance – 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.
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
Type of Finding	Significant Deficiency – Period of Performance
U.S. Department of Homeland Security	(ALN – 97.036) Disaster Grants – Public Assistance (Presidentially Declared Disasters)
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.
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.

continue

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

Finding Reference Number	2019-016
Type of Finding	Significant Deficiency – Special Tests and Provisions – Documentation of Enrollment Status
U.S. Department of Education	(ALN – 84.938C) Temporary Emergency Impact Aid for Displaced Students
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.
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.
FISCAL YEAR 2020	
Finding Reference Number	2020-002
Type of Finding	Significant Deficiency – Activities Allowed or Unallowed
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)
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: <ol style="list-style-type: none"> 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.
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

continue

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

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.
Finding Reference Number	2020-003
Type of Finding	Material Weakness – Activities Allowed or Unallowed // Eligibility
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)
Statement of Condition	<p>The following deficiencies were found:</p> <ol style="list-style-type: none"> 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.
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

continue

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

Current Status	No final determination has been received from the Federal Awarding Agency.
Finding Reference Number	2020-004
Type of Finding	Material Weakness – Allowable Costs/Costs Principles
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
Statement of Condition	<p>The following deficiencies were found:</p> <ol style="list-style-type: none"> 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. 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.
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	<u>Program Determination Email for ALNs 84.027 and 84.173:</u> 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.

continue

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

Also, in a Program Determination Email for ALNs 84.010, 84.013, 84.287, 84.367, 84.365, 84.424, 84.027 and 84.173 dated September 18, 2024 (Audit Control Number 02-20-19329), received from Ms. Catherine Miers of the Office of Elementary and Secondary Education of the US Department of Education (USDE), they state that the PRDE provide documentation for the following corrective actions: made payments to employees for hours not worked, and for which specific grants were received, this is not an allowable activity, and required that the PRDE design and implement adequate internal controls and payroll processes that will identify in real – time or sooner, any incorrect payroll payment made.

Finding Reference Number	2020-005
Type of Finding	Material Noncompliance and Material Weakness – Allowable Costs/Costs Principles
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
Statement of Condition	Deficiencies in payments to employees for hours not worked, and payroll charge to incorrect Federal programs.
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	<u>Program Determination Letter for ALN 84.027</u> : 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. Also, a <u>Program Determination Email</u> for ALNs 84.010, 84.367, and 84.013 dated September 18, 2024 (Audit Control Number 02-20-19329), received from Ms. Catherine Miers of the Office of Elementary and Secondary Education of the US Department of Education (USDE), they state that the PRDE provide documentation for the following corrective action: made payments to employees for hours not worked, and for which specific grants were received. In addition, payments made to suppliers constituted payment for services not rendered to the PRDE, and required that the PRDE design and implement adequate internal controls and payroll processes that will identify in real – time or sooner, any incorrect payroll payment made. Also, implementing a validation of all payments to be processed should be made in order to ensure that no duplicate payments are made.

continue

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

Finding Reference Number	2020-006
Type of Finding	Material Noncompliance and Material Weakness – Eligibility
U.S. Department of Agriculture	(ALN – 10.555) National School Lunch Program (ALN – 10.559) Summer Food Service Program for Children
Statement of Condition	<p>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:</p> <ol style="list-style-type: none"> 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.
Recommendations	We recommend that the PRDE follows its 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
Type of Finding	Significant Deficiency – Equipment and Real Property Management
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)
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.
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:

continue

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

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

Type of Finding Noncompliance and Significant Deficiency – Matching, Level of Effort, Earmarking

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

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.

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

Type of Finding Noncompliance and Significant Deficiency – Matching, Level of Effort, Earmarking

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 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.

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.

continue

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

Finding Reference Number	2020-010
Type of Finding	Material Noncompliance and Material Weakness – Procurement and Suspension and Debarment
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)
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.
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	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
Type of Finding	Material Noncompliance and Material Weakness – Procurement and Suspension and Debarment
U.S. Department of Agriculture	(ALN – 10.555) National School Lunch Program (ALN – 10.559) Summer Food Service Program for Children
Statement of Condition	<p>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:</p> <ol style="list-style-type: none"> 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.
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
Type of Finding	Material Weakness – Reporting
U.S. Department of Homeland Security	(ALN – 97.036) Disaster Grants – Public Assistance (Presidentially Declared Disasters)
Statement of Condition	<p>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:</p> <ol style="list-style-type: none"> 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).

continue

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

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.

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

Type of Finding

Significant Deficiency – Reporting

Assistance Listing Numbers

All Federal Programs

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.

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

continue

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

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 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.

Also, a Program Determination Email for ALNs 84.010, 84.287; 84.367, 84.369, 84.938, and 84.424 dated September 18, 2024 (Audit Control Number 02-20-19329), received from Ms. Catherine Miers of the Office of Elementary and Secondary Education of the US Department of Education (USDE), they required that the PRDE provide documentation for the following corrective actions: maintain adequate records related to the Federal programs in order to properly identify the Federal programs/transactions when the SEFA is prepared; 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; and establish a formal, uniform process for the use of the expenditure account to record the transfers to subrecipient entities on its' general ledger and for SEFA preparation purposes.

Finding Reference Number

2020-014

Type of Finding

Material Noncompliance and Material Weakness – Special Tests and Provisions – Disbursement to or on Behalf of Students

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)

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.

continue

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

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

Type of Finding Noncompliance and Significant Deficiency – Subrecipient Monitoring

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

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.

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

Type of Finding Material Noncompliance and Material Weakness – Subrecipient Monitoring

U.S. Department of Agriculture (ALN – 10.558) Child and Adult Care Food Program

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 2019-2020. We noted the following deficiencies on the worksheet:

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.

continue

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

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.

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.

Finding Reference Number

2020-018

Type of Finding

Material Noncompliance and Material Weakness – Subrecipient Monitoring

National Endowment of the Humanities

(ALN – 45.310) Grants to States

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 2019-2020. We noted the following deficiencies on the worksheet:

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's worksheet.

continue

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

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.

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.

FISCAL YEAR 2021

Finding Reference Number

2021-003

Type of Finding

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.

continue

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

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.

Finding Reference Number

2021-004

Type of Finding

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

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:

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.

continue

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

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 were 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

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.

Finding Reference Number

2021-005

Type of Finding

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.

continue

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

Current Status	<u>Program Determination Email for ALN. 84.010</u> dated September 18, 2024 (Audit Control Number 02-21-39634), received from Ms. Catherine Miers of the Office of Elementary and Secondary Education of the US Department of Education (USDE), they required that the PRDE provide documentation for the following corrective action: reassessed the internal controls used to validate information in the payment system.
Finding Reference Number	2021-006
Type of Finding	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	<p>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:</p> <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. 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 cost 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:

continue

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

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

Program Determination Email for ALNs. 84.938 and 84.425 dated September 18, 2024 (Audit Control Number 02-21-39634), received from Ms. Catherine Miers of the Office of Elementary and Secondary Education of the US Department of Education (USDE), they required that the PRDE provide documentation for the following corrective actions: 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; requested that adequate supporting evidence from the vendors be presented for any expenses to be reimbursed by the PRDE; and 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.

Finding Reference Number

2021-007

Type of Finding

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

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:

continue

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

SUMMARY SCHEDULE OF PRIOR AUDITS' FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

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

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
	COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund	
84.425D	(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

Program Determination Email for ALNs. 84.010, 84.367, and 84.425 dated September 18, 2024 (Audit Control Number 02-21-39634), received from Ms. Catherine Miers of the Office of Elementary and Secondary Education of the US Department of Education (USDE), they required that the PRDE provide documentation for the following corrective actions: designed and implemented adequate internal controls and payroll processes that will identify in real – time or sooner, any incorrect payroll payment made.

Finding Reference Number

2021-008

Type of Finding

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

continue

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

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.

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.

continue

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

Current Status	<u>Program Determination Email for ALNs. 84.027, and 84.173</u> dated September 18, 2024 (Audit Control Number 02-21-39634), received from Ms. Catherine Miers of the Office of Elementary and Secondary Education of the US Department of Education (USDE), they required that the PRDE provide documentation for the following corrective actions: inventory carried out and records reconciled; internal controls implemented in order to provide certainty that only equipment that is necessary for the operation of the program is purchased; and the use of this equipment monitored, so that its installation and use are followed up, as well as the transfer of equipment.
Finding Reference Number	2021-009
Type of Finding	Noncompliance and Significant Deficiency – Matching, <u>Level of Effort</u>, 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
Type of Finding	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: <ol style="list-style-type: none"> 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.

continue

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

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.
4. We selected 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

Type of Finding

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:

continue

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

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.

Finding Reference Number 2021-013

Type of Finding **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 Program Determination Email for ALN. 84.010 dated September 18, 2024 (Audit Control Number 02-21-39634), received from Ms. Catherine Miers of the Office of Elementary and Secondary Education of the US Department of Education (USDE), they required that the PRDE provide documentation for the following corrective action: strengthen internal controls so as to maintain proper documentation on all students.

continue

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

Finding Reference Number	2021-017
Type of Finding	Noncompliance and Significant Deficiency – Subrecipient Monitoring
U.S. Department of Education	(ALN – 84.287) Twenty-First Century Community Learning Centers
Statement of Condition	<p>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:</p> <ol style="list-style-type: none"> 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. 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	<p>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.</p>
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	2021-018
Type of Finding	Noncompliance and Significant Deficiency – Subrecipient Monitoring
U.S. Department of Agriculture	(ALN – 10.558) Child and Adult Care Food Program (CACFP)
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 2020-2021. We noted the following deficiencies on the worksheet from a sample of ten (10) subrecipients audit reports evaluations tested:</p> <ol style="list-style-type: none"> 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.
Recommendations	<p>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.</p>
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

FISCAL YEAR 2022

Finding Reference Number	2022-003 (See Finding Reference Number 2022-002)
Type of Finding	Reportable Instance of Noncompliance and Material Weakness – Activities Allowed or Unallowed // Allowable Costs/Costs Principles // Reporting – Schedule of Expenditures of Federal Awards
U.S. Department of Homeland Security	(ALN – 97.036) Disaster Grants-Public Assistance (Presidentially Declared Disasters) PASS-THROUGH: PUERTO RICO CENTRAL OFFICE FOR RECOVERY, RECONSTRUCTION AND RESILIENCY (COR3)
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.
Recommendations	The PRDE must revise 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.
Questioned Cost	Undetermined.
Current Status	No final determination has been received from the Federal Awarding Agency.

Finding Reference Number	2022-004
Type of Finding	Material Noncompliance and Material Weakness – Activities Allowed or Unallowed // Allowable Costs/Costs Principles
U.S. Treasury Department	(ALN – 21.019) Coronavirus Relief Fund PASS-THROUGH: PUERTO RICO OFFICE OF MANAGEMENT AND BUDGET
Statement of Condition	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: <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.

continue

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

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.

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.

Questioned Cost

Undetermined.

Current Status

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

Finding Reference Number

2022-005

Type of Finding

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 (IDEA)
(ALN – 84.173) Special Education – Preschool Grants (IDEA Preschool) – Special Education Cluster (IDEA)

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:

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

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

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.

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	2022-006
Type of Finding	Material Noncompliance and Material Weakness – Activities Allowed or Unallowed // Allowable Costs/Costs Principles
U.S. Department of Education	(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
Statement of Condition	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.
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.
Questioned Cost	Undetermined.
Current Status	No final determination has been received from the Federal Awarding Agency.
Finding Reference Number	2022-007
Type of Finding	Material Noncompliance and Material Weakness – Activities Allowed or Unallowed // Allowable Costs/Costs Principles
U.S. Department of Education	(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)
Statement of Condition	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:

continue

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

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.

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.

Questioned Cost

Undetermined.

Current Status

Program Determination Email for ALN. 84.425 dated September 18, 2024 (Audit Control Number 02-22-39945), received from Ms. Catherine Miers of the Office of Elementary and Secondary Education of the US Department of Education (USDE), they required that the PRDE provide documentation for the following corrective actions: established 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; receiving reports are created in the SIFDE system so the 3-way-match procedure can be performed adequately; verified 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; established adequate controls within the SIFDE system to stop the payment process for invoices requested to be adjusted and for invoices with the same numbers; and established better controls and communication channels between departments so that a duplicate payment is not collected twice from the supplier.

COMMONWEALTH OF PUERTO RICO

DEPARTMENT OF EDUCATION

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

SUMMARY SCHEDULE OF PRIOR AUDITS' FINDINGS

FOR THE FISCAL YEAR ENDED JUNE 30, 2023

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

Finding Reference Number 2022-008

Type of Finding Material Noncompliance and Material Weakness – Allowable Costs/Costs Principles

U.S. Department of Education

(ALN – 84.002) Adult Education – Basic Grants to States
 (ALN – 84.027) 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

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:

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 \$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>	

continue

COMMONWEALTH OF PUERTO RICO

DEPARTMENT OF EDUCATION

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

SUMMARY SCHEDULE OF PRIOR AUDITS' FINDINGS

FOR THE FISCAL YEAR ENDED JUNE 30, 2023

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

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

State Fund	CONSOLIDATED FUNDS										TOTAL ALLOCATED AMOUNT
	(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	
\$ -	\$ 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
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>\$ 160,921.34</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%	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.

Recommendations

We recommend the PRDE to establish an adequate and consistent allocation method of each invoice amount that reflects 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.

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 2022-009

Type of Finding Material Noncompliance and Material Weakness – Allowable Costs/Costs Principles

U.S. Department of Agriculture (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 (SFSP) – Child Nutrition Cluster
 (ALN – 10.582) Fresh Fruit and Vegetable Program (FFVP) – Child Nutrition Cluster

U.S. Department of Education (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
 (ALN – 84.425D) COVID-19 Education Stabilization Fund: Elementary and Secondary School
 Emergency Relief Fund

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 \$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	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	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.

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.

Questioned Cost 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.

continue

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

Current Status	<u>Program Determination Email for ALN. 84.425</u> dated September 18, 2024 (Audit Control Number 02-22-39945), received from Ms. Catherine Miers of the Office of Elementary and Secondary Education of the US Department of Education (USDE), they required that the PRDE provide documentation for the following corrective action: designed and implemented adequate internal controls and payroll processes that will identify in real – time or sooner any incorrect payroll payment made.
Finding Reference Number	2022-010
Type of Finding	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) (ALN – 84.425D) COVID-19 Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund
Statement of Condition	<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.

continue

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

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.

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

Program Determination Email for ALN. 84.425 dated September 18, 2024 (Audit Control Number 02-22-39945), received from Ms. Catherine Miers of the Office of Elementary and Secondary Education of the US Department of Education (USDE), they required that the PRDE provide documentation for the following corrective actions: inventory carried out and records reconciled; internal controls implemented in order to provide certainty that only equipment that is necessary for the operation of the program is purchased; and the use of this equipment monitored, so that its installation and use are followed up, as well as the transfer of equipment.

Finding Reference Number

2022-011

Type of Finding

Material Noncompliance and Material Weakness – Period of Performance

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 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.

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.

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	2022-012
Type of Finding	Material Noncompliance and Material Weakness – Procurement and Suspension and Debarment
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	<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 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.
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	2022-013
Type of Finding	Material Noncompliance and Material Weakness – Reporting
U.S. Department of Education	All Major Programs
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.

continue

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

Recommendations 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.

Questioned Cost None.

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

Finding Reference Number 2022-014

Type of Finding Material Noncompliance and Material Weakness – Reporting – FFATA

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

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.

Recommendations 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.

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:

NONE

END OF SCHEDULE



GOBIERNO DE

PUERTO RICO

OFICINA DE ADMINISTRACIÓN

Jullymar Octaviani | Subsecretaria de Administración | octavianivj@de.pr.gov

Certifying Official: _____

Jullymar Octaviani

Date: 03/31/2025

As part of the audit process for fiscal year 2022-2023, the Puerto Rico Department of Education (PRDE) received several findings related to compliance with federal requirements in the management of funds. The following is a summary of the identified findings and the corrective actions developed by PRDE to address each of them, with the goal of strengthening internal controls and ensuring compliance with applicable regulations.

Finding Reference Number: 2023-001 & 002

Federal Program Name: PA-02-PR-4339-PW-00619, PA-02-PR-4339-PW-00621, PA-02-PR-4339-PW-00623, PA-02-PR-4473-PW-0043

Type of Finding: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Matching, Level of Effort, Earmarking, Period of Performance, and Reporting

Federal Agency: U.S. Department of Education

Specific Requirement

Uniform Guidance at 2 CFR §200.302 Financial Management Section (a) establish the administrative requirements for the program, which include the requirement that state's 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.

§ 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.

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.

Statement of Condition

The PRDE did not maintain on its' accounting system (SIFDE) complete record of the program financial transactions 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 expenditures did not include the required accounting codes. 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.

Also, per inquiries made during our audit, the PRDE staff indicate that matching share contributions related to the program were disbursed to the PRDE by another state agency during the fiscal year were not recorded during the fiscal year and were recorded on the next fiscal year due to lack of adequate identification of the funds received on the PRDE's accounts with the Puerto Rico Treasury Department.

Questioned Costs

None

Recommendations

The PRDE must revise 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 statements 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.

Corrective Action Plan

The Puerto Rico Department of Education (PRDE) acknowledges the deficiencies identified during the audit regarding the recording and reporting of financial transactions under the specified disaster recovery federal programs. Specifically, PRDE recognizes the lack of complete and accurate records in the SIFDE accounting system, including the absence of federally required accounting codes—such as those identifying the Assistance Listing Numbers—and delays in recognizing matching share contributions received from another state agency. These weaknesses impacted the timely and accurate preparation of the Schedule of Expenditures of Federal Awards (SEFA) and financial statements.

To address these issues, PRDE will revise and strengthen its accounting and internal control procedures for federally funded programs. As a first step, the Finance Office, in collaboration with the Infrastructure Office, will develop and implement a formalized internal procedure to ensure that all financial transactions related to federal awards are recorded timely and accurately using the correct accounting codes, including those that identify the federal program, Assistance Listing Number, and other required attributes under 2 CFR §200.302. These revised procedures will include detailed instructions for coding federal expenditures and ensuring that such codes are embedded within the financial management system at the time of transaction entry.

Finally, PRDE will provide training to both Infrastructure and Finance staff involved in the management of federal funds. Training topics will include federal financial management requirements, SEFA preparation, internal controls, and accurate coding of transactions. Full implementation of these corrective actions is expected by June 30, 2025, ensuring strengthened compliance and financial reporting going forward.

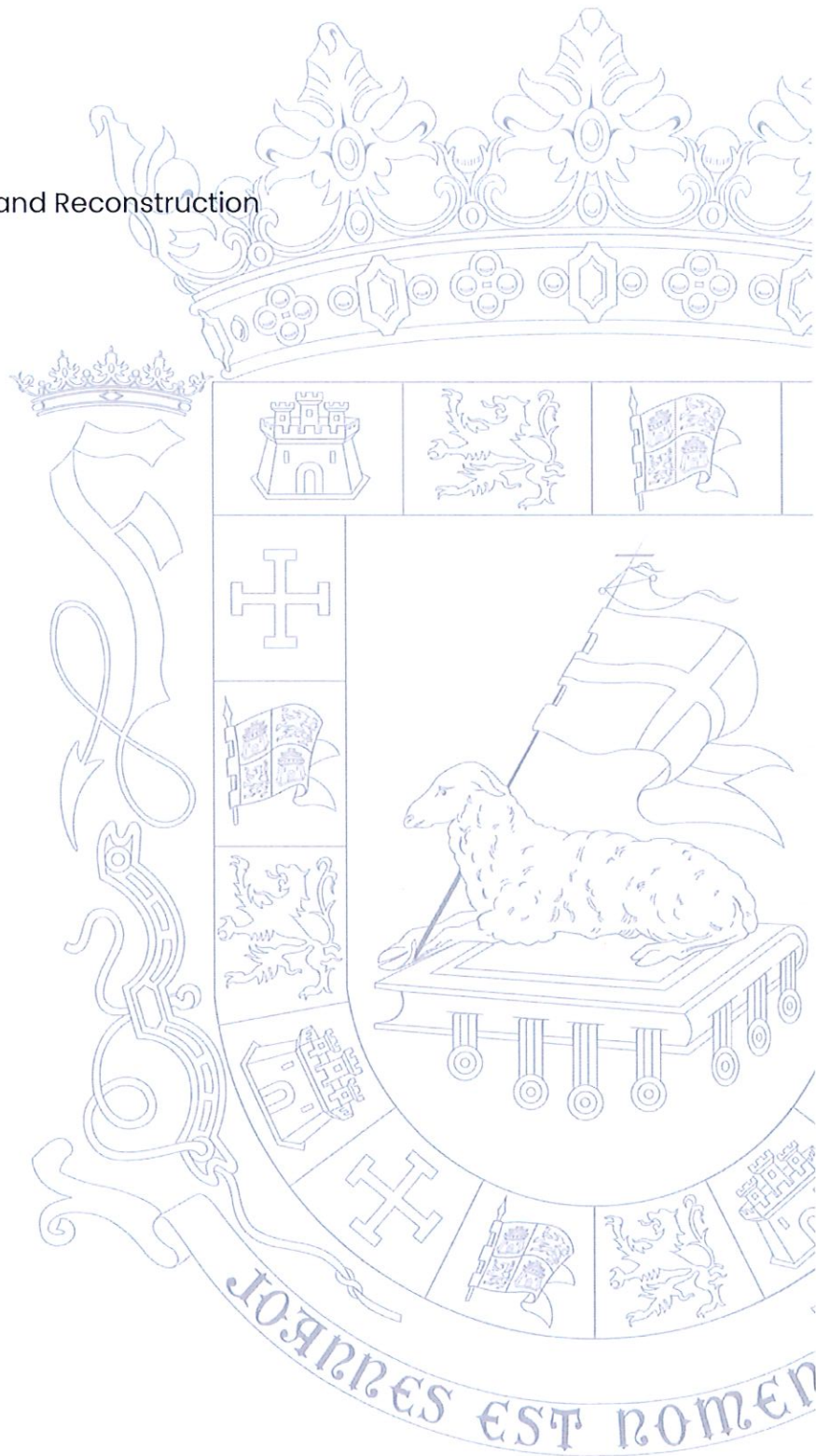
Responsible Personnel

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

Evelyn Rodriguez Cardé
Finance Director

Estimated Completion Date

In Process



Finding Reference Number: 2023–003

Federal Program Name:

H027A200003 (07/01/2020 – 09/30/2021); H027A210003 (07/01/2021 – 09/30/2022);
H173A200003 (07/01/2020 – 09/30/2021); H173A210003 (07/01/2021 – 09/30/2022)

Type of Finding: Activities Allowed or Unallowed // Allowable Costs/Costs Principlest

Federal Agency: U.S. Department of Education

Specific Requirement

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 seventy-nine (79) disbursements to suppliers made during the fiscal year under audit. We noted the following deficiencies:

1. In nineteen (19) disbursement receipts related to evaluation and therapy intervention services, service sheets with the signature or stamp of the institution that provided the services were not found. In the case where the service to the participant was provided in the facilities of the institution, only the therapist signed, there was no signature from the parent or guardian indicating that the therapy was received.

2. In seven (7) disbursement vouchers for different concepts, we could not validate which PRDE personnel authorized the disbursements, since in SIFDE the information on the authorizations was blank.

3. In a disbursement voucher, the master excel sheet and MIPE presented adjustments for \$240.00, however, in the adjustment report they only presented \$140.00. No justification was found for the difference of \$100.00.

4. In an evaluated disbursement voucher, a student was included who is billed \$34,000 per month. In the student's file in MIPE, there is no breakdown of how the institution arrived at that amount in its service quote. The average monthly payments at that institution fluctuate between \$9,300 and \$20,800 per month. We were not provided with evidence of the educational cost analysis for this participant.

5. In two (2) disbursements, no evidence of attendance sheets of participants was found in MIPE, in order to corroborate the costs invoiced.

6. In three (3) evaluated vouchers, the cost per student could not be validated with the supplier's proposal per student, since it was not located in MIPE.

7. In two (2) disbursement vouchers, the payments to the suppliers for therapy services does not match the cost assigned by contract for these services.

8. In a disbursement voucher, the educational cost of a participant is not consistent with the proposal that the Institution includes in MIPE.

9. In two disbursements related to educational services, we found on the master sheet three (3) participants who indicate that the educational service was provided in another institution with the same teacher who teaches classes at the institution that is billing.

10. In three (3) evaluated disbursements related to intervention and therapy services, the billed costs for therapies did not match the contracted costs. Additionally, no evidence was found of billed costs for educational services in the MIPE system.

11. In two (2) disbursement vouchers evaluated related to educational services, we were not provided with evidence of the tuition and monthly costs of the students, nor was there evidence of receipt by Department staff showing that the services were received as contracted.

12. In thirty-three (33) 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.

Questioned Costs

None

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.

Corrective Action Plan

The Puerto Rico Department of Education (PRDE) acknowledges the deficiencies identified during the audit related to disbursements under the IDEA Cluster programs. These issues primarily relate to incomplete documentation supporting the allowability of expenditures, inconsistencies between invoiced and contracted costs, missing evidence of service delivery and approvals, and incorrect program coding between the 84.027 and 84.173 grants.

To address these findings, PRDE will develop and implement standardized written procedures and internal control procedures for the review, approval, and documentation of educational and therapeutic services. These procedures will clearly define the documentation required for each disbursement, including service logs with appropriate signatures, attendance records, cost proposals, tuition breakdowns, and supporting contracts. Regional staff will be trained on the existing guidelines, with emphasis on uploading complete supporting documentation to both the SIFDE

accounting system and the MIPE platform. Training will be conducted by the Special Education Program and include real-case scenarios to promote consistency and accuracy across all regions.

To correct deficiencies related to missing authorization and incomplete audit trails, PRDE will revise user roles and workflows in SIFDE to ensure all disbursement records include evidence of authorized review by PRDE personnel. A checklist for verification and approvals will be incorporated into the voucher processing steps and validated before any disbursement is finalized.

Regarding the inaccurate grant coding between the 84.027 and 84.173 programs, PRDE will implement a revised cost allocation methodology that assigns expenses based on participant age, in alignment with the program's funding requirements. The updated procedures will include automated checks in the accounting system to alert users when the program code selected does not match the student's age group or program eligibility. Additional training will be provided to accounting and program staff on the proper allocation of costs between IDEA Part B (84.027) and Preschool (84.173).

PRDE is committed to improving its internal controls, documentation practices, and training programs to ensure that expenditures under federal awards are adequately supported and appropriately recorded. All corrective actions outlined above are scheduled to be fully implemented by December 30, 2025.

Responsible Personnel

Enid Díaz Nieves
Executive Director III – Special Education Program

Estimated Completion Date

In Process

Finding Reference Number: 2023-004

Federal Program Name:

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); S196A210040 (07/01/2021 – 09/30/2022)

Type of Finding: Allowable Costs/Cost Principles

Federal Agency: U.S. Department of Education

Specific Requirement

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 adds: 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 includes 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 four (4) 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 a total hour 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 RATE CALCULATED
01096148	7/14/2022	\$ 3,495,833.00	830311-2022-14	6/1/2022	May 2022	10,021.33	\$ 3,495,833.00	\$ 181,018.08	\$ 330.78
23AP0028	7/21/2022	3,495,833.00	830311-2022-15	7/1/2022	June 2022	10,468.08	3,495,833.00	321,222.44	303.27
01109884	8/30/2022	3,495,833.00	830311-2022-16	8/5/2022	July 2022	10,715.62	3,495,833.00	137,087.31	313.44
01112413	9/22/2022	3,495,833.00	830311-2022-17	9/1/2022	August 2022	10,792.00	3,495,833.00	143,843.37	310.80
01117295	10/20/2022	3,495,833.00	830311-2022-18	10/1/2022	September 2022	8,755.00	3,495,833.00	118,237.21	385.79
01120635	11/28/2022	3,495,833.00	830311-2022-19	11/5/2022	October 2022	7,718.10	3,495,833.00	122,499.59	437.07
01125019	1/11/2023	3,495,833.00	830311-2022-20	12/5/2022	November 2022	7,399.21	3,495,833.00	110,766.32	457.49
01133398	1/27/2023	3,495,833.00	830311-2022-21	1/5/2023	December 2022	7,455.70	3,495,833.00	98,063.66	455.73
01135445	3/3/2023	3,495,833.00	830311-2023-22	2/5/2023	January 2023	7,894.00	3,495,833.00	169,876.63	421.33
01140237	3/23/2023	3,495,833.00	830311-2-23-23	3/5/2023	February 2023	8,520.00	3,495,833.00	217,146.24	384.82
01148591	5/26/2023	3,491,794.28	830311-2023-24	4/5/2023	March 2023	10,808.34	3,491,794.28	42,711.67	319.11
01148593	6/8/2023	4,038.72	830311-2023-24A	4/5/2023	March 2023	-	4,038.72	-	-
01163611	6/8/2023	2,995,833.33	830311-2023-25	5/5/2023	April 2023	7,398.52	2,995,833.33	584,656.79	325.90
01167982	6/28/2023	2,995,833.33	830311-2023-26	6/5/2023	May 2023	7,809.41	2,995,833.33	532,677.90	315.41
		<u>\$44,445,829.66</u>					<u>\$ 44,445,829.66</u>	<u>\$ 2,779,807.21</u>	

2. 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 84.425U	ALN 84.425W	ALN 84.196A	TOTAL ALLOCATED AMOUNT
\$ 3,495,833.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,495,833.00
3,495,833.00	-	-	-	-	-	3,495,833.00
-	3,358,596.34	-	-	103,060.96	34,175.70	3,495,833.00
-	3,495,833.00	-	-	-	-	3,495,833.00
3,495,833.00	-	-	-	-	-	3,495,833.00
3,495,833.00	-	-	-	-	-	3,495,833.00
3,495,833.00	-	-	-	-	-	3,495,833.00
3,495,833.00	-	-	-	-	-	3,495,833.00
3,495,833.00	-	-	-	-	-	3,495,833.00
3,495,833.00	-	-	-	-	-	3,495,833.00
3,491,794.28	-	-	-	-	-	3,491,794.28
-	4,038.72	-	-	-	-	4,038.72
-	978,821.06	517,012.27	1,500,000.00	-	-	2,995,833.33
-	1,000,000.00	-	1,995,833.33	-	-	2,995,833.33
<u>\$31,458,458.28</u>	<u>\$ 8,837,289.12</u>	<u>\$ 517,012.27</u>	<u>\$ 3,495,833.33</u>	<u>\$ 103,060.96</u>	<u>\$ 34,175.70</u>	<u>\$44,445,829.66</u>
70.78%	19.88%	1.16%	7.87%	0.23%	0.08%	

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 830311-2023-25 the amount of \$2,017,012 (67% of total invoice amount) was charged 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. In addition, several invoices for a total amount for the year of \$8,837,289 or 19.88% of total payments was charge to Consolidated Funds which includes several federal programs that could incurred in unallowed costs.

Questioned Costs

Not determine

Recommendations

We recommend to the PRDE to established 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, the PRDE should request that adequate supporting evidence from the vendors be presented for any expenses to be reimbursed by the PRDE.

Corrective Action Plan

The PRDE does not agree with the Recommendation to establish an allocation method for TPFA invoices because 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.

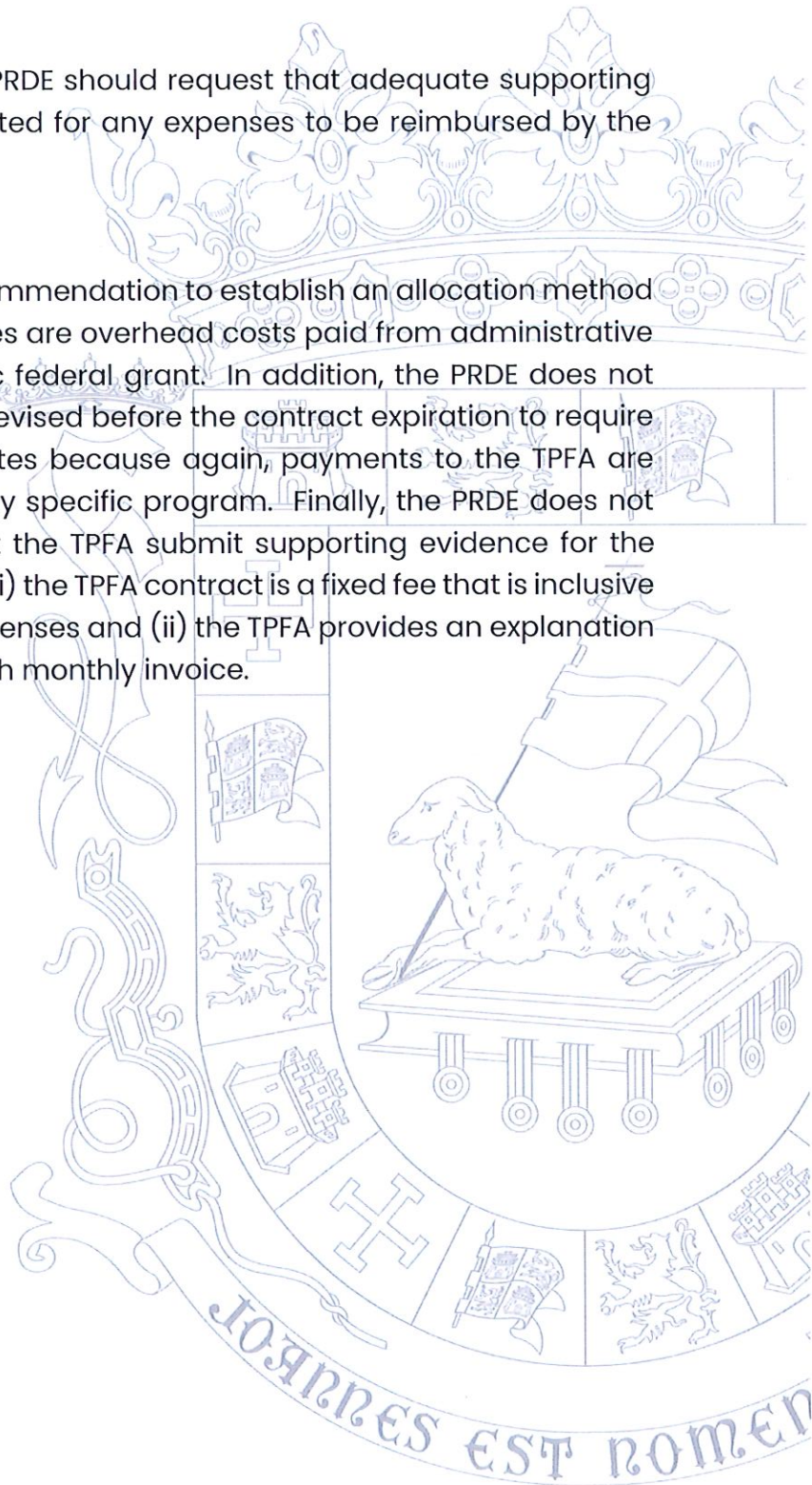
Responsible Personnel

Jullymar Octtaviani Vega
Sub-Secretary of Administration

María de los Angeles Lizardi Valdés
OFA Director

Estimated Completion Date

None



Finding Reference Number: 2023–005

Federal Program Name:

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); 1PRAEA22SCESUBA (10/01/2022–09/30/2023); 221PR300336E_A (10/01/2022–10/30/2024); H027A18003 (07/01/2018 – 09/30/2019); H027A19003 (07/01/2019 – 09/30/2020); H027A20003 (07/01/2020 – 09/30/2021); H027A21003 (07/01/2021 – 09/30/2022); S010A140052 (07/01/2014–09/30/2015); S010A170052 (07/01/2017–09/30/2018); S010A180052 (07/01/2018–09/30/2019); S425D200029 (06/16/2020 – 09/30/2021); S425D210029 (01/05/2021 – 09/30/2022); S425U210029 (03/24/2021–09/30/2023); S938A180002 (04/26/2018–04/26/2020); V002A180053 (07/01/2020–09/30/2021); V048A180052 (07/01/2018–09/30/2019).

Type of Finding: Allowable Costs/Cost Principles

Federal Agency: US Department of Education / US Department of Agriculture

Specific Requirement

2 CFR Section 200.403 (g) 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 200.1, defines improper payments as a payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. The term improper payment includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for those payments where authorized by law), any payment that is not authorized by law, and any payment that does not account for credit for applicable discounts.

Statement of Condition

As part of our audit procedures and interviews over financial reporting, we obtained a detail of accounts receivable related to duplicate or incorrect payments made for payroll transactions in the amount of \$4,484,606 and an incorrect payment made to a supplier in the amount of \$1,546,139. Invoices issued during the fiscal year ended June 30, 2023 balance, were distributed as federal and state, as follows:

ALN Number	Program Description	Transaction Balance
10.553/ 10.555/ 10.560	Child Nutrition Cluster	\$ 172,473
84.002	State Administrative Expenses for Child	951
84.010	Adult Education – Basic Grants to States	761
84.027	Title I Grants to Local Educational Agencies	1,547,590
84.048	(Title I, Part A of the ESEA)	33,003
84.425D	Special Education – Grants to States (IDEA,	1,081
84.425U	Vocational Education – Basic Grants to States	39,198
84.938A	Elementary and Secondary School Emergency	7,003
Not	American Rescue Plan – Elementary and	913
Not	Secondary Schools Emergency Relief Fund	3,063,584
Not	Immediate Aid to Restart School Operations	9,583
	(Restart) Program	1,154,605
	Schoolwide Program (State and Federal	
	Consolidated Funds (State and Federal	
	State Funds	
	Total Invoices Issued Balance at 06/30/2023	\$ 6,030,745

Questioned Costs

Identified questioned costs are \$256,834, for which were identified as employees that didn't work for the Federal program. Other amount may be unallowed, if the PRDE can identify the portion of Federal funding incurred in Schoolwide and Consolidated activities. Total questioned costs of \$1,546,139 are related to the supplier payment for not compliance with the contract terms and conditions.

Recommendations

We recommend the PRDE to design and implement adequate internal controls and payroll processes that will identify in real - time or sooner, any incorrect payroll payment made. We recommend the PRDE to design and implement adequate internal controls to validate the information included in the supplier invoices even if the system is used for the supplier payment process.

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 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

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.

Responsible Personnel

Wilfredo Falcon
Director of the Time and Attendance Office (TAL)

Giovanni Siárez Fuentes
Subdirector Payroll

Estimated Completion Date

Implemented

Finding Reference Number: 2023–006

Federal Program Name:

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)

Type of Finding: Equipment and Real Property Management

Federal Agency: U.S. Department of Education

Specific Requirement

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 on equipment requirements, we requested an inventory of equipment from the PRDE as of June 30, 2023. No inventory was taken since 2019. The Department provided a list of all additions made during the fiscal year.

We selected a sample of forty (40) 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. An electric dryer, purchased in November 2022, is still uninstalled, as the classroom lacks the necessary connection.
2. One item could not be observed, as the classroom teacher was not present.

We selected a sample of forty (40) 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. There was one item of equipment with an assigned property number, which could not be observed. PRDE staff told us that the equipment was never delivered, and the purchase was canceled; however, the equipment does have a property number on the list provided by the PRDE.
2. An item purchased (electric skillet) costing \$17,995 was purchased in April 2023, and at the time of our testing, March 2025, it was stored in a warehouse without being used.
3. An item costing \$8,750 was purchased in June 2023, however, at the time of our test, March 2025, the equipment was not installed.
4. Three (3) items delivered to a private institution were observed, but they are not in use, as the institution closed operations in August 2024.

Questioned Costs

None

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.

Corrective Action Plan

The Puerto Rico Department of Education (PRDE) acknowledges the deficiencies noted during the audit procedures related to equipment management and safeguarding under the IDEA Cluster and ESSER Program. As part of its commitment to ensuring compliance with federal equipment requirements, PRDE's Property Office will implement several corrective actions to address the issues identified and improve internal controls over inventory and asset management.

For items not currently in use—such as the electric dryer, electric skillet, and other uninstalled equipment—the Property Office has initiated the process of relocating and transferring these items to eligible educational institutions that can make immediate and effective use of them. This includes coordination with program areas to assess current needs and facilitate proper installation or repurposing to ensure compliance with usage requirements and avoid further delays in utilization. In the specific case of equipment delivered to a private institution that ceased operations in August 2024, the Property Office will proceed with the recovery and reallocation of these assets to ensure that federally funded equipment continues to support eligible program activities.

Regarding the item listed as delivered but never received, PRDE confirms that the Property Office has already made the necessary corrections in the property inventory system to accurately reflect the status of the item. This ensures that future inventory reports do not include equipment that was never physically delivered, avoiding confusion during audits and maintaining an accurate asset ledger.

For the instances where audit observation could not be completed due to personnel unavailability or classroom access limitations, the Property Office will enhance coordination and communication with school-based staff to ensure that all relevant personnel are available during audit site visits. This includes implementing a scheduling and notification protocol that guarantees the presence of classroom teachers or designated personnel to facilitate timely observation and verification of equipment.

Lastly, PRDE is committed to completing an inventory of the equipment of the entire system. As such, the Property Office is currently conducting inventory activities, which are being carried out internally by Agency staff. School directors are responsible for performing the inventories and ensuring that equipment is properly stored and managed within their schools. Once the school directors complete the inventory, they upload the information into a module within PRDE's Financial System (SIFDE).

Responsible Personnel

Nilda Z. Morales Vázquez
Director of Property Office

Estimated Completion Date
In Process



Finding Reference Number: 2023-007

Federal Program Name:

H027A200003 (07/01/2020 – 09/30/2021); H027A210003 (07/01/2021 – 09/30/2022);
H173A200003 (07/01/2020 – 09/30/2021); H173A210003 (07/01/2021 – 09/30/2022)

Type of Finding: Procurement and Suspension and Debarment

Federal Agency: U.S. Department of Education

Specific Requirement

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:

1. We selected five proposals reviewed and approved by Special Education staff, related to educational and related services. We found the following deficiencies:
 - a. One proposal was not available for our review.
 - b. We noted that four proposals did not provide evidence of audited financial statements, as required in the "Request for Proposals".
2. We selected 10 proposals evaluated and approved by Special Education staff, related to educational and related services. We found the following deficiencies:
 - a. Two proposals that received an 80% evaluation failed to mention years of experience or how they will address the Department's five (5) most pressing needs.
 - b. Three proposals failed to provide evidence of audited financial statements.
 - c. One proposal that received a 94% evaluation failed to provide information on available special education staff.
3. In addition, we observed that estimated costs are presented in all proposals related to educational services do not reflect reasonableness among institutions.

It was observed that costs can vary from \$1,800 to \$34,000 for similar services provided at different institutions, per participant.

Questioned Costs

None

Recommendations

We recommend that the PRDE provide trainings to the personnel in charge of reviewing the proposals. In addition, proper documentation should be maintained when approving educational services to participants, in order to ascertain that reasonable costs are incurred for the services provided and in accordance with the proposals evaluated and approved by the committee.

Corrective Action Plan

The Puerto Rico Department of Education (PRDE) acknowledges the deficiencies identified during the audit related to the procurement process for educational and related services under the IDEA Cluster programs. The Department is committed to strengthening its internal controls and ensuring that all procurement activities are conducted in full compliance with 2 CFR Section 200.317 and applicable state procurement regulations.

To address the missing and incomplete documentation noted in the reviewed proposals, PRDE will reinforce its procedures for maintaining all relevant procurement records, including complete proposals, evaluation documentation, and required attachments such as audited financial statements. Going forward, proposals that do not meet all mandatory submission criteria, as outlined in the Request for Proposals (RFP), will be deemed non-compliant and excluded from evaluation. This step will ensure that all vendors are held to consistent and transparent standards during the selection process.

Additionally, the Department recognizes the importance of evaluating proposals based not only on scoring metrics but also on the substance of the vendors' responses. For this reason, PRDE will revise its evaluation rubrics and scoring guides to include clear requirements related to vendors' experience, alignment with the Department's stated priorities, and the availability of qualified special education staff. Evaluation committees will receive updated templates and instructions to document how each proposal meets these specific criteria.

To address the concern regarding cost reasonableness, the PRDE will conduct a cost analysis review of previously approved proposals to establish benchmarks for comparable services. These benchmarks will serve as reference points in future evaluations to identify outlier costs and ensure equitable pricing across institutions. Cost proposals that deviate significantly from established standards will require justification and documentation of value-added components before approval.

Finally, PRDE will provide targeted training to all personnel involved in proposal evaluation and procurement processes, with an emphasis on regulatory compliance, documentation standards, and cost reasonableness analysis. This training will be developed and delivered by the Procurement Office in coordination with the Special Education Program and Legal Affairs. All corrective actions are expected to be implemented by June 30, 2025, and monitored on an ongoing basis to ensure continuous compliance and improvement in procurement practices.

Responsible Personnel

Christopher Mena Lantigua

Daiber Carrion Muñoz

Director of Compliance Associate Secretary of Special Education/Central Level

Estimated Completion Date

In Process

Finding Reference Number: 2023–008

Federal Program Name: All Major Programs

Type of Finding: Reporting

Federal Agency: U.S. Department of Education

Specific Requirement

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, 2023 during the required period.

Questioned Costs

None

Recommendations

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

The Puerto Rico Department of Education (PRDE) acknowledges the delay in submitting the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse for the fiscal year ending June 30, 2023. PRDE is aware of the importance of timely and accurate reporting in accordance with 2 CFR § 200.512 and will take all necessary actions to prevent delays in future submissions.

To address this issue, PRDE will implement a corrective plan focused on improving internal timelines, accountability, and documentation availability. The Department will establish a centralized schedule for Single Audit-related activities, which includes interim deadlines for the preparation and review of the financial statements, Schedule of Expenditures of Federal Awards (SEFA), and other components of the reporting package.

Additionally, PRDE will strengthen its internal control procedures by assigning a team within the Finance Office to oversee audit coordination and reporting compliance. This team will ensure that supporting documentation and accounting records are compiled continuously throughout the year, allowing the Department to respond efficiently to auditor requests and avoid last-minute delays. Enhanced collaboration with other divisions, including Federal Programs, Budget, and Human Resources, will streamline access to required information.

Finally, PRDE will provide training to financial and programmatic personnel involved in the audit and reporting process to ensure awareness of reporting requirements, documentation standards, and the importance of timely submission. These combined efforts aim to achieve full compliance with 2 CFR § 200.512 in future audit cycles. The corrective actions are scheduled for full implementation by June 30, 2025.

Responsible Personnel

Evelyn Rodriguez Cardé
Finance Director

Jullymar Octtaviani Vega
Seb-Secretary of Administration

Estimated Completion Date

In Process

Finding Reference Number: 2023–009

Federal Program Name: Child Nutrition Cluster (ALNs 10.555 & 10.559)

Type of Finding: Noncompliance – Reporting

Federal Agency: U.S. Department of Agriculture

Specific Requirement

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.fsr.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 2022–2023 fiscal year.

Questioned Costs

Not Applicable

Recommendations

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

PRDE acknowledges the oversight in failing to comply with the Federal Funding Accountability and Transparency Act (FFATA) reporting requirements related to first-

tier subawards under the Child Nutrition Cluster. To address this deficiency and strengthen internal controls, the PRDE will take comprehensive corrective actions. First, the Department will develop and implement formal written policies and procedures that clearly outline the FFATA reporting process. These procedures will include criteria for identifying reportable subawards—specifically, those of \$30,000 or more—as well as the required timeline for submission, which mandates reporting no later than the end of the month following the month in which the obligation was made. Additionally, these procedures will define the roles and responsibilities of designated personnel and their backups to ensure reporting continuity and accountability.

To support the successful implementation of these procedures, PRDE will provide targeted training to key staff members involved in the management of federal grants, procurement, and reporting functions. This training will cover FFATA requirements, navigation and use of the FSRs.gov reporting system, and key deadlines to ensure timely and accurate reporting.

The Program will also establish a monthly review process to verify compliance with reporting requirements and ensure that appropriate documentation is retained as evidence of submission. This will include the use of a standardized checklist and reporting calendar to manage deadlines and review cycles. Lastly, the Department will improve communication with subrecipients by establishing a formal mechanism to inform them of FFATA-related responsibilities and any documentation that may be required from their end. These collective actions are expected to remediate the finding and build a sustainable compliance structure by the estimated completion date of June 30, 2025.

Responsible Personnel

Odalis Menard
AESAN Director

Lourdes García Santiago
AESAN Sub-Director

Estimated Completion Date

June 30, 2025