



Kevane

Grant Thornton

Financial Statement and Report of
Independent Certified Public Accountants

Puerto Rico Department of Education

(An Executive Agency of the Commonwealth of Puerto Rico)

Single Audit Package

June 30, 2019

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

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Report of Independent Certified Public Accountants

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Report on the Financial Statement

We have audited the accompanying statement of cash receipts and cash disbursements (“the financial statement”) of the **Puerto Rico Department of Education** (“PRDE”) (“the Entity”), an executive agency of the Commonwealth of Puerto Rico, for the year ended June 30, 2019, and the related notes to the financial statement.

Management’s Responsibility for the Financial Statement

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

Auditor’s Responsibility

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

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

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

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the statement of cash receipts and cash disbursements of the Puerto Rico Department of Education for the year ended June 30, 2019, in accordance with the cash basis of accounting described in Note 2.

Basis of Accounting

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

Emphasis of Matter Regarding Going Concern

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

Other Emphasis of Matter

As discussed in Note 1, the financial statement of PRDE, is intended to present the cash receipts and cash disbursements of the Commonwealth that are attributable to the transactions of PRDE. They do not purport to, and do not, present fairly the cash receipts and cash disbursements of the Commonwealth as of June 30, 2019. Our opinion is not modified with respect to this matter.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13 be presented to supplement the financial statement. Such information, although not a part of the financial statement, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries to management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statement, and other knowledge we obtained during our audit of the financial statement. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2020, on our consideration of the Entity's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Entity's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Entity's internal control over financial reporting and compliance.

San Juan, Puerto Rico,
November 19, 2020.



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

Management's Discussion and Analysis June 30, 2019

Introduction

This section of the financial statement is classified by the Governmental Accounting Standard Board (GASB) as Required Supplementary Information ("RSI"). It is intended to provide an objective and easy readable analysis of the government's financial activities. Along with the Statement of Cash Receipts and Disbursements, the management's discussion and analysis should provide the users with the most relevant information regarding the financial condition of the Puerto Rico Department of Education ("PRDE") as of June 30, 2019, including a general comparison to the prior fiscal year. The management of the PRDE provides this annual financial report and the management's discussion and analysis of PRDE's financial performance during the fiscal year ended June 30, 2019. This report includes the cash received and cash disbursed as a result of the operating activities of PRDE, including funds appropriated by the Commonwealth of Puerto Rico (the "Commonwealth") and federal financial assistance programs granted by the U.S. Governmental Agencies ("USGA"). PRDE is an executive agency part of the primary government of the Commonwealth.

Overview of the Financial Statement

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

Liquidity Risk and Going Concern

The Commonwealth including its executives' agencies faces significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they become due. The risks and uncertainties facing the Commonwealth, together with other factors, have led the Commonwealth's management to conclude that there is substantial doubt as to the ability of the primary government, to continue as a going concern. One of the aspects of the Commonwealth's operations contributing to the liquidity constraints relates to the Commonwealth's education costs. During the year ended June 30, 2019, Commonwealth appropriations amounted to \$1.62 billion, which represents a 63%, approximately, of PRDE's total cash receipts. The budget appropriation for the Commonwealth's Department of Education has historically represented a significant portion of the total Commonwealth General Fund budget. In addition, certain expenditures, such as those required to fund the Department of Education's special education program, can increase unexpectedly as a result of court orders issued in pending lawsuits by special education students. Another important factor is that PRDE has experienced a substantial reduction in student enrollment, which is expected to continue for the foreseeable future. Certain federally funded programs are funded on a per capita basis and a reduction in the number of students due to demographic trends or changes in program parameters could result in a lower amount of federal funds.

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

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The Commonwealth currently faces a severe fiscal and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. The Commonwealth's largest revenue streams are especially vulnerable during times of major economic downturns and have been affected by these same factors. As the Commonwealth's tax base has shrunk and its revenues been affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services. The Commonwealth's very high level of debt and pension liabilities and the resulting required allocation of revenues to service debt and pension obligations contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt. The Commonwealth's continued economic recession, high level of debt and pension obligations, and structural budget deficits, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all.

PROMESA Act

In response to the Commonwealth's current fiscal crisis, on June 30, 2016, the U.S. President signed the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"), which grants the Commonwealth and its component units' access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. In broad strokes, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth, relief from creditor lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title IV of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by supermajority of creditors; and (b) a bankruptcy-type proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code.

Commonwealth Fiscal Plan

Pursuant to PROMESA and the requirements imposed by the Oversight Board, on May 27, 2020, the Oversight Board certified its own fiscal plan for the Commonwealth (the Board Fiscal Plan). The Board Fiscal Plan commits to fiscal responsibility and implements specific revenue enhancements and targeted expenditure reductions to return Puerto Rico to fiscal stability and economic growth.

Following is a summary of conditions and facts that have had an impact on the Commonwealth financial condition and results of operations and as a result affects PRDE operations.

Hurricanes Irma and María

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

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

Management's Discussion and Analysis June 30, 2019

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

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

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

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

Retirement Systems

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

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

General Budget approved for Fiscal Year 2018- 2019

The Legislature approved on June 30, 2018 by Joint Resolution No. 354 the allocation of \$2,479,487,000, charged to the General Fund of the State Treasury, for ordinary operating expenses of PRDE during the fiscal year ended June 30, 2019, among other appropriations. This allocation resulted in an increase of \$100.3 million or 60% when compared to the general budget approved in FY 2017-2018.

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

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For years, the Government of Puerto Rico lacked liquidity to meet its payments, money from pensioners and intragovernmental loans were used to replace sources of liquidity and spent more money than available funds. In addition, the Government Development Bank for Puerto Rico ("GDB") breached its obligations to bondholders since May 1, 2016 and no longer fulfilled its role of providing liquidity, nor did it have access to the market due to the credibility lost from the Government of Puerto Rico.

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

Puerto Rico Education Reform Law

On March 29, 2018, the Commonwealth enacted Act No. 85 of 2018, known as the Puerto Rico Education Reform Act, which consists of several measures to be taken, including a new system focused mainly on the students, by establishing a budget based on the average cost per student and the needs of each student. The legislation also guarantees that seventy percent (70%) of the budget assigned for the education budget will be allocated to local schools. The new reform also established the Charter Public Schools, in which private entities such as nonprofit organizations, corporations or municipalities take over the administration of the schools. Another measure taken with the Education Reform was the creation of the free selection school and educational voucher program. Under the new education law, the voucher for private school may not exceed seventy percent of the amount allocated by the PRDE per student up prior to hurricanes Irma and María. The students must first be enrolled in public or charter schools for two years prior to qualifying for a private school voucher.

In addition, the creation of the Educational Regional Offices; decentralize the administration and services in order to have a more efficient structure that responds to the needs of the school community; reduce costs; establish a digital transparency policy in educational processes; and delegate greater responsibilities to regional Superintendents and Directors. With the regionalization, each region will operate as Local Educational Authority ("LEA"). The new Education Reform led to a reduction of the number of public schools from 1,131 to 856 allocating more funds for each student in the system. This number increased to 857, after the approval of the first Charter School in Puerto Rico in the 2018-2019 fiscal year.

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

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

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

**Management's Discussion and Analysis
June 30, 2019**

Financial Analysis of the Statement of Cash Receipts and Cash Disbursements

Total Governmental Activities

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

Cash Receipts and Cash Disbursements - Total Governmental Activities

Condensed Financial Information:

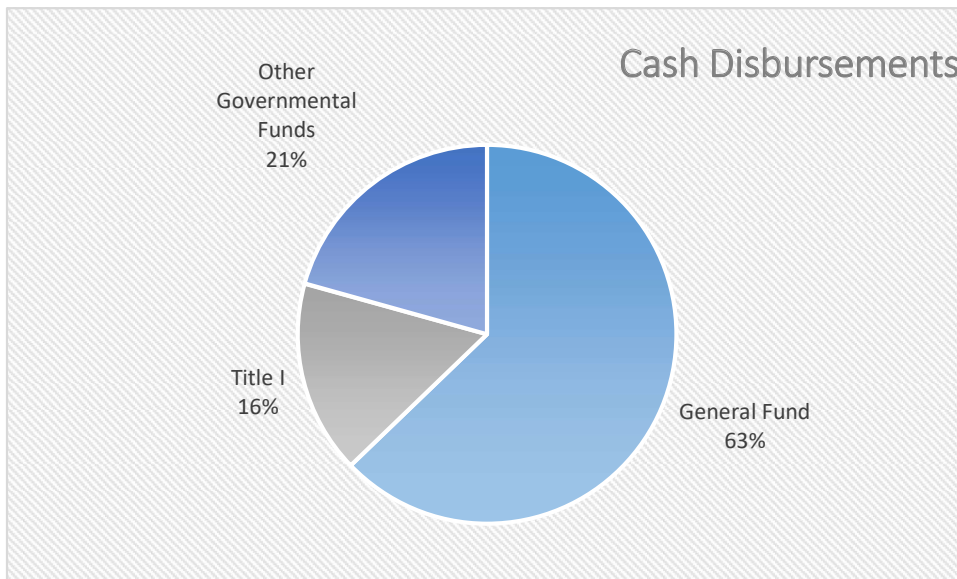
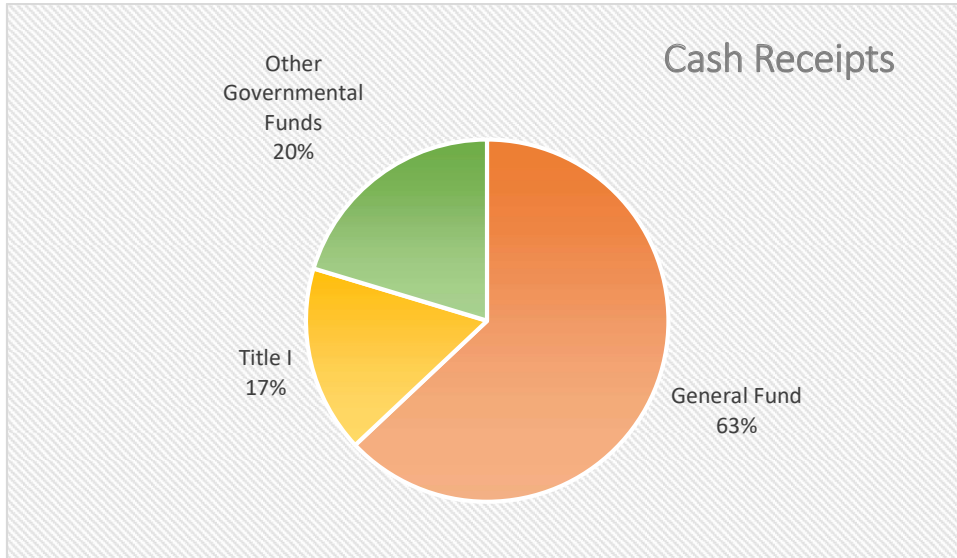
| | Year Ended June 30, | | Change | |
|---|----------------------|----------------------|----------------------|------------|
| | 2019 | 2018 | In dollars | Percentage |
| Cash Receipts: | | | | |
| Commonwealth appropriations | \$ 1,621,350,964 | \$ 1,594,637,586 | \$ 26,713,378 | 1.7% |
| Intergovernmental – federal government | 953,615,821 | 777,110,479 | 176,505,342 | 22.7% |
| Total cash receipts | <u>2,574,966,785</u> | <u>2,371,748,065</u> | <u>203,218,720</u> | 8.6% |
| Cash Disbursements: | | | | |
| General government | 103,946,892 | 76,366,134 | 27,580,758 | 36.1% |
| Vocational and Technical Education | 71,882,956 | 67,273,640 | 4,609,316 | 6.9% |
| Community Schools | 1,335,997,872 | 1,290,491,928 | 45,505,944 | 3.5% |
| Integrated Educative Services for the Disabled | 421,587,417 | 383,458,265 | 38,129,152 | 9.9% |
| Food Services for Students | 246,519,452 | 244,173,529 | 2,345,923 | 1.0% |
| Schools' Quality of Life and Drug Free | 13,124,293 | 11,025,736 | 2,098,557 | 19.0% |
| Adult Education | 6,438,709 | 8,797,633 | (2,358,924) | -26.8% |
| Technological Institutes | 15,186,106 | 15,511,261 | (325,155) | -2.1% |
| Auxiliary Services and Technical Assistance | 37,770,486 | 34,979,154 | 2,791,332 | 8.0% |
| Institute for Administrative Training and Counseling to Schools | 1,837 | 16,968 | (15,131) | -89.2% |
| Public Schools Maintenance | 43,660,033 | 20,599,590 | 23,060,443 | 111.9% |
| Printing Services | 568,955 | 605,309 | (36,354) | -6.0% |
| Indirect Costs | 79,077,685 | 30,514,674 | 48,563,011 | 159.1% |
| Joint Resolutions | 12,727,195 | 51,744,003 | (39,016,808) | -75.4% |
| Special Accounts | 88,221,453 | 88,163,899 | 57,554 | 0.1% |
| Total cash disbursements | <u>2,476,711,341</u> | <u>2,323,721,723</u> | <u>152,989,618</u> | 6.6% |
| Excess | <u>\$ 98,255,444</u> | <u>\$ 48,026,342</u> | <u>\$ 50,229,102</u> | 104.6% |

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

Management's Discussion and Analysis June 30, 2019

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



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

Management's Discussion and Analysis June 30, 2019

For the year ended June 30, 2019, PRDE's Statement of Cash Receipts and Cash Disbursements reflects an excess of receipts over disbursements of \$98 million. The main reason for the overall excess of cash receipts over cash disbursements is the recovery of funds resulting from prior years "deficiencies" of cash disbursements over cash receipts due to the fact that PRDE presents its financial statements using the cash-basis of accounting and as a result, it is limited to only reporting cash receipts and cash disbursements when the transactions meet the timing requirement. Due to the participation of PRDE in the pooled cash arrangement, cash receipts from Commonwealth appropriations are considered received when the related disbursement is made. Cash receipts related to indirect cost and special accounts, are recognized when cash is received. In addition, excess of cash receipts and cash disbursements is due to certain disbursements not made during 2018 fiscal year related to the new pay mechanism implemented by the Puerto Rico Treasury Department and disbursements not made during the period when schools were closed after passing of hurricanes Irma and María. The cash disbursements variations (under or over 10%) for the year ended June 30, 2019 when compared to the same period in 2018 are described below:

General Government increased by approximately \$27.58 million or 36% when compared to fiscal year 2018 mainly due to an increase in disbursement of \$29.2 million to pay prior year debts. Other increase was related to the disbursement of \$23.2 million to the Puerto Rico Infrastructure Financing Authority (AFI, per its acronym in Spanish) and the Office for the Improvement of Public Schools (OMEP, per its acronym in Spanish) for school repairs and improvements. Another increase of \$6.1 million was related to the disbursement of special education services. This increase was offset by a decrease of \$31.5 million to OMEP that was disbursed on FY2018 for school renovation project, known as "*Renueva tu Escuela*".

Integrated Educative Services for the Disabled increased by approximately \$38.1 million or 9.9% when compared to fiscal year 2018, mainly due to an increase of approximately \$22 million to hire temporary personnel that would provide the services of those employees that took early retirement on previous fiscal years. Other increase of approximately \$18.8 million was related to the disbursements of transportation services that were provided now that all schools reopened in the FY 2019. During the previous fiscal year, many schools remained closed after to the passing of hurricanes Irma and Maria, therefore transportation services were not offered temporarily for a couple of months.

Schools' Quality of Life and Drug Free increased by approximately \$2 million or 19% when compared to fiscal year 2018 mainly due to the installation of surveillance systems in closed schools that still have equipment within them.

Adult Education decreased by approximately \$2.4 million or 26.8% when compared to fiscal year 2018, mainly due to a decrease of approximately \$2.7 million related to adult educational services that began in late October of fiscal year 2019. Also, a decrease in payroll and fringe benefits expenses of approximately \$255 thousand of employees that retired during FY2018 and their corresponding sick/vacation balances were disbursed within that period. This decrease was offset by an increase in the disbursement of approximately \$645 thousand, related to the state library services that PRDE was now able to provide since schools and adult education centers reopened in FY 2019.

Institute for Administrative Training and Counseling to Schools decreased by approximately \$15 thousand or 89.2% when compared to fiscal year 2018 mainly due to a decrease in payroll and fringe benefits expenses that is related to the closure of the program. PRDE initiated personnel transfer to other programs in FY 2018.

Public Schools Maintenance increased by approximately \$23 million or 111.9% when compared to fiscal year 2018 mainly due the disbursement of approximately \$24 million related to the efforts of disaster recovery after the impact of hurricanes Irma and María.

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June 30, 2019**

Indirect Cost increased by approximately \$48.6 million or 159.1% when compared to fiscal year 2018 mainly due to an increase of disbursement of approximately \$32.5 million to AFI and OMEP for school repairs and improvements. Another increase of approximately \$5.4 million for information systems and technological support services; approximately \$4.2 million for transportation services paid with other funds in FY 2018; and, approximately \$3.9 million for student scholarship known as Work Base Learning Project. This increase was offset by approximately \$3.6 million for telephone and internet services that were paid from this fund in FY2018.

Joint resolutions decreased by approximately \$39 million or 75.4% when compared with fiscal year 2018 was mainly due to a decrease of the contributions made to the Schoolwide fund of approximately \$23.5 million. During FY2018, the PRDE only made contributions to the College Board tests with this fund. Another decrease by approximately \$15 million was due to payments made during prior fiscal year regarding to the project, known as "*Renueva tu Escuela*" by the AFI and OMEP, which were not incurred during FY 2019.

Governmental Funds Results

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

General Fund

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

Cash Receipts and Cash Disbursements – General Fund

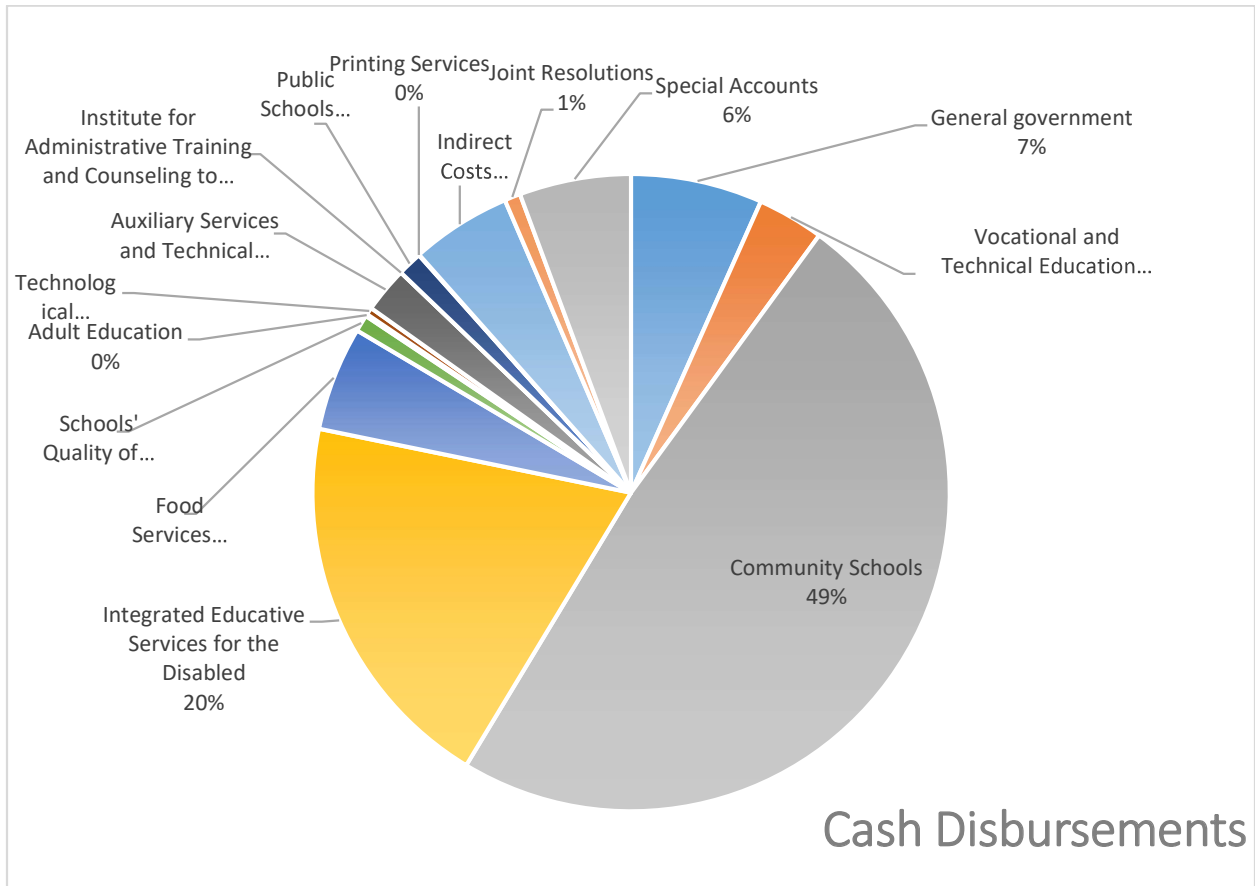
Condensed Financial Information:

| | General fund | | Change | |
|---------------------------|------------------|------------------|---------------|------------|
| | 2019 | 2018 | In dollars | Percentage |
| Cash Receipts | \$ 1,621,350,964 | \$ 1,594,637,586 | \$ 26,713,378 | 1.7% |
| Cash Disbursements | 1,555,241,197 | 1,552,384,858 | 2,856,339 | 0.2% |
| Excess | \$ 66,109,767 | \$ 42,252,728 | \$ 23,857,039 | 56.5% |

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

**Management's Discussion and Analysis
June 30, 2019**

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



**Puerto Rico Department of Education
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June 30, 2019**

Title I Fund

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

Cash Receipts and Cash Disbursements – Title I Fund

Condensed Financial Information:

| | Title I | | Change | |
|---------------------------|----------------------|---------------------|----------------------|-------------------|
| | 2019 | 2018 | In dollars | Percentage |
| Cash Receipts | \$ 429,662,507 | \$ 369,162,697 | \$ 60,499,810 | 16.4% |
| Cash Disbursements | 409,293,646 | 367,221,813 | 42,071,833 | 11.5% |
| Excess | <u>\$ 20,368,861</u> | <u>\$ 1,940,884</u> | <u>\$ 18,427,977</u> | 949.5% |

The cash receipts reflect three award years with different funding periods. In FY 2019 and FY 2018, the PRDE received awards by approximately \$405.8 million and \$396.2 million, respectively, from Title I Grants to Local Educational Agencies. The excess in cash receipts over cash disbursements is mainly attributable to timing differences. Funds requested during the end of FY 2018 were received during the beginning of FY 2019. The increase in cash disbursements of the Title I Fund responds directly to an increase in funds granted or approved by the federal agency during the FY 2019 compared with FY 2018. Therefore, an increase in cash disbursements was expected.

Contacting the PRDE’s Financial Management

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

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

**Statement of Cash Receipts and Cash Disbursements
For the Year Ended June 30, 2019**

| | General Fund | Title I | Other Governmental Funds | Total Governmental Funds |
|---|----------------------|----------------------|--------------------------------|--------------------------------|
| Cash Receipts: | | | | |
| Commonwealth appropriations | \$ 1,621,350,964 | - | - | \$ 1,621,350,964 |
| Intergovernmental – federal government | - | 429,662,507 | 523,953,314 | 953,615,821 |
| Total cash receipts | <u>1,621,350,964</u> | <u>429,662,507</u> | <u>523,953,314</u> | <u>2,574,966,785</u> |
| Cash Disbursements: | | | | |
| Current: | | | | |
| General Government | 103,946,892 | - | - | 103,946,892 |
| Vocational and Technical Education | 52,186,318 | - | 19,696,638 | 71,882,956 |
| Community Schools | 756,041,965 | 409,293,646 | 170,662,261 | 1,335,997,872 |
| Integrated Educative Services for the Disabled | 304,178,062 | - | 117,409,355 | 421,587,417 |
| Food Services for Students | 82,378,601 | - | 164,140,851 | 246,519,452 |
| Schools' Quality of Life and Drug Free | 13,124,293 | - | - | 13,124,293 |
| Adult Education | 1,729,488 | - | 4,709,221 | 6,438,709 |
| Technological Institutes | 5,862,848 | - | 9,323,258 | 15,186,106 |
| Auxiliary Services and Technical Assistance | 36,024,361 | - | 1,746,125 | 37,770,486 |
| Institute for Administrative Training and Counseling to Schools | 1,837 | - | - | 1,837 |
| Public Schools Maintenance | 19,171,244 | - | 24,488,789 | 43,660,033 |
| Printing Services | 568,955 | - | - | 568,955 |
| Indirect Costs | 79,077,685 | - | - | 79,077,685 |
| Joint Resolutions | 12,727,195 | - | - | 12,727,195 |
| Special Accounts | 88,221,453 | - | - | 88,221,453 |
| Total cash disbursements | <u>1,555,241,197</u> | <u>409,293,646</u> | <u>512,176,498</u> | <u>2,476,711,341</u> |
| Excess of cash receipts over cash disbursements | <u>\$ 66,109,767</u> | <u>\$ 20,368,861</u> | <u>\$ 11,776,816</u> | <u>\$ 98,255,444</u> |

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

Notes to Statement of Cash Receipts and Cash Disbursements June 30, 2019

(1) **Reporting Entity:**

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

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

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

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

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

(a) **Basis of Accounting** -

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

(b) **Basis of Presentation** -

The Entity’s fiscal year ends on June 30th. All references to year in these notes to the financial statement represent the fiscal year then ended, unless otherwise noted. The Entity has evaluated subsequent events through November 19, 2020, the date the financial statement was available to be issued.

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

Notes to Statement of Cash Receipts and Cash Disbursements June 30, 2019

(c) Fund Financial Statement -

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

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

(d) Budgetary Accounting -

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

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

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

On April 29, 2017, Act No.26 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 State Treasury's General Fund and will be deposited in the current bank account of the Secretary of the Treasury for the latter to have full dominion over the same.

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

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

Notes to Statement of Cash Receipts and Cash Disbursements June 30, 2019

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

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

Federal grant funds can be carried over a specified amount of time, upon request to, and approval by the federal agencies. The financial statement is presented at the programmatic level. However, budgetary control and accounting is exercised at a lower level providing management with detailed control over expenditures at an appropriated budget level.

(e) **Cash** -

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

(f) **Compensated Absences** -

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

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

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

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

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

**Notes to Statement of Cash Receipts and Cash Disbursements
June 30, 2019**

(g) Operational Leases -

The Department is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore neither the assets nor the liabilities of the lease agreements are reflected in the accounting records. Most leased property is from the Puerto Rico Public Buildings Authority ("the Authority"), a component unit of the Commonwealth. The Office of Management and Budget, along with the Department of the Treasury of Puerto Rico are responsible of making these payments to the Authority on behalf of the Department, therefore excluded from the accompanying Statement of Cash Receipts and Cash Disbursements. During the fiscal year ended June 30, 2019, these payments for lease agreements amounted to approximately \$74.9 million. Additional rent paid by the PRDE for the leasing of its central offices and other warehouses was approximately \$12.1 million. Information of the future minimum rental payments required under operating leases was not available.

(h) Risk Management -

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

(3) Going Concern:

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

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

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

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

Notes to Statement of Cash Receipts and Cash Disbursements June 30, 2019

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

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

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

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

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

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

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

Notes to Statement of Cash Receipts and Cash Disbursements June 30, 2019

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

On January 29, 2017, Act No. 5 of 2017, known as the Puerto Rico Fiscal Responsibility and Financial Emergency Act, was enacted to maintain the moratorium on debt payment existing under the Moratorium Act; however, it allowed the Commonwealth to segregate funds that would eventually be used to fund the payment of public debt. Act No. 5 of 2017 states that the Governor may pay debt service as long as the Commonwealth is able to continue to fund essential services, such as the health, safety, and well-being of the people of Puerto Rico, including providing for their education and assistance to residents. Act No. 5 of 2017 continued to declare the Commonwealth to be in a state of emergency and increased the Governor's powers to manage the Commonwealth's finances. The emergency period under Act No. 5 of 2017 was set to expire on May 1, 2017 to coincide with the expiration of the Title IV Stay (as discussed above), unless extended by an additional three months by executive order. On April 30, 2017, the Governor issued executive order OE-2017-031, which extended the Act No. 5 of 2017 emergency period to August 1, 2017. On July 19, 2017, the Legislature enacted Act No. 46 of 2017, which further extended the Act No. 5 of 2017 emergency period through December 31, 2017. Act No. 46 of 2017 allowed the Governor to sign executive orders to extend the emergency period for successive periods of six months as long as the Oversight Board remains established for Puerto Rico under PROMESA.

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

On March 13, 2017, the Oversight Board certified the initial fiscal plan for the Commonwealth. The fiscal plan has been subject to various revisions. On May 27, 2020, the Oversight Board certified its most recent fiscal plan for the Commonwealth. The Board Fiscal Plan commits to fiscal responsibility and implements specific revenue enhancements and targeted expenditure reductions (health care and higher education spending), pension reform, improving capital efficiency and structural reforms to return Puerto Rico to fiscal stability and economic growth.

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

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

For the fiscal years 2019-2020 and 2018-2019, the PRDE had a budget of \$2,398,500,000 and \$2,536,283,000 from the General Fund, respectively, which represents a decrease of approximately \$138,000,000. These appropriations include approximately \$1,053,436,000 and \$1,011,883,950, respectively, to pay for existing pensions under the PayGo system.

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

Notes to Statement of Cash Receipts and Cash Disbursements June 30, 2019

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

(4) Stewardship, Compliance and Accountability:

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

(5) Indirect Cost Rate Proposal:

Generally, each year, the Department submits an indirect cost rate proposal for approval by the United States Department of Education ("the USDE"), the Audit Cognizant Agency. On August 9, 2019, the USDE entered into an Indirect Cost Rate Agreement No. 2019-104 with the PRDE which replaced the previous agreement No. 2017-220 (A). This agreement includes final rates which became effective on July 1, 2016 until June 30, 2017 and also includes provisional rates, covering the period under audit, beginning on July 1, 2017 until June 30, 2019. The rates within the Agreement for FY2019 were 6% for school lunch programs and 4.1% for all other programs, based on salaries and wages, including fringe benefits, among other costs. These rates are used to allocate qualified types of expenditures from state funds to the federal financial assistance programs.

(6) Retirement Plans:

The two employee retirement systems described in the following paragraphs administered the pension funds for the Department until the enactment of the Act for Guaranteeing the Payment to Retirees and Establishing a New Defined Contributions Plan for the Public Servicers ("Act No. 106") on August 23, 2017. These Retirement Systems are subject to legislative and executive controls, and their administrative expenses are subject to legislative budget controls. The Retirement Systems, as governmental retirement plans, are excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the Primary Government's agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, the new PayGo mechanism for all the Commonwealth's Retirements Systems. At the beginning of fiscal year 2018, employer's contributions, contributions ordered by special laws and the Additional Uniform Contribution were all eliminated and replaced by a monthly PayGo charge that will be collected from the aforementioned government entities to pay retirees. The Retirement Systems will determine and administer the payment amount per retiree that will be charged to each agency, public corporation and a municipality. The Pay Go charge must be submitted to the Treasury Department before the 15th day of each month along with the individual contributions withheld from active employees. As liquid retirement funds become depleted, the PayGo charge is expected to increase.

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

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

Notes to Statement of Cash Receipts and Cash Disbursements June 30, 2019

(a) **Teachers Retirement System (“TRS”)** -

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

Prior to August 23, 2017, TRS administered two benefit structures pursuant to Act No.160 of 2013 (“Act 160”), as modified by the April 11, 2014 decision of the Puerto Rico Supreme Court. Benefit provisions vary depending on 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 PRDE become Plan members of the TRS at their date of employment. Licensed teachers working in private schools or other educational organizations had the option to become members of TRS as long as the required employer and employee contributions were satisfied.

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

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

The Plan members of the TRS hired on or before July 31, 2014 were eligible for retirement, death, and disability benefits. Benefits vest after completion of a given number of years of credited service based on age. Benefits are determined by the application of stipulated benefit ratios to the members’ average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by TRS. 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. 106 and Circular Letter No. 1300-14-18 issued by the Treasury Department.

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

Notes to Statement of Cash Receipts and Cash Disbursements June 30, 2019

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

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

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

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

Members who had entered the Employees Retirement System before January 1, 2000 participated in a defined benefit program. Members who began to participate prior to April 1, 1990 were entitled to the highest benefits structure, while those who began to participate on or after April 1, 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 1-1990").

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

Retirement and related benefits provided by the ERS and required contributions to the ERS by employers and employees, are determined by law rather than by actuarial requirements. Effective July 1, 2013, all participants contributed a minimum of 10% with no maximum restriction of their gross monthly salary. Commencing in fiscal year 2012, 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 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.

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On December 8, 2015, Act No. 211 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 of May 15, 1951, as amended.

The incentives provided by the program include a compensation equal to sixty percent (60%) of the employees' average compensation as of December 31st, 2015, while they participate in the Program; the payout of unused vacation and sick leaves, taking into account the limit established in Act No. 66-2014 and exempt from taxation, and the payment of employer contributions on account of Social Security and Medicare, and to keep their health insurance coverage or to continue receiving their employer contribution for the health insurance under the same terms and conditions as if he/she were an employee, for a term of two (2) years. Moreover, this Program provides for the employer to continue making both individual and employer contributions to the Retirement System for Employees of the Government of the Commonwealth of Puerto Rico, thus guaranteeing an increase in their future retirement annuity, which shall never be less than fifty percent (50%) of their average compensation as of June 30th, 2013, and in the case of the members of the Puerto Rico Police, as defined in Act No. 53-1996, as amended, it may reach up to sixty percent (60%) of the average compensation as of June 30th, 2013, by combining frozen contributions as of June 30th, 2013 and the annuity of the Defined Contribution Hybrid Program. As of June 30, 2019, the Department made payments of \$61.3 million as a result of this Program.

(7) Commitments and Contingencies:

(a) Federal Financial Assistance Programs -

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

(b) Special Conditions -

On a communication dated June 30, 2018, the USDE issued a letter imposing special conditions on all grants awarded to the PRDE for FY 2018, as well as on all grants previously awarded by USDE to PRDE that are still available for obligation or liquidation on the date of the special conditions. This Special Condition Letter requires PRDE to submit status reports on a series of items connected to the 2007 Memorandum of Agreement ("MOA"). PRDE is specifically required to (i) enhance and develop a system or systems to capture information on Personal Service Contracts ("PSC") and Professional Services Contract ("ProsSC") in order to better account for and reconcile federal expenditures, (ii) compliance with Grants Management System (iii) compliance with Regulations Enforcement, (iv) compliance with Regulations Enforcement, (v) continued reporting on implementation of Activities under the MOA and 2007 Agreement, (vi) internal audit office and audit oversight committee, (vii) prompt response to request for records, and (viii) Program-Specific conditions. Management believes that the PRDE is substantially in compliance with terms and conditions imposed by the Special Condition Letter.

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

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**Notes to Statement of Cash Receipts and Cash Disbursements
June 30, 2019**

In accordance with regulations governing specific conditions in 2 CFR §200.207 in the Office of Management and Budget Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (“Uniform Guidance”) and Section IIIA of the FY 2019 PRDE Departmental Specific Conditions, the USDE is imposing additional specific conditions, which include the requirement that PRDE must procure the services of a third party fiduciary agent, acceptable to the USDE, to perform financial management duties required under federal laws and regulations for all USDE awards made to the PRDE.

The specific conditions maintain, with appropriate changes, certain provisions from the FFY 2019 Departmental Specific Conditions with respect to PRDE’s implementation of Part B of the Individuals with Disabilities Education Act, full implementation of the Internal Audit Office and Audit Oversight Committee, among other matters.

As a result of these conditions, the PRDE agrees that by accepting grant awards subject to the terms of these specific conditions, it will draw down funds and charge costs against its grant awards only in accordance with the first in-first out (FIFO) accounting procedure, therefore charging costs first against FY 2017 grant awards, then against FY 2018 grant awards, and then against FY2019 grant awards, at least until it has procured the services of the Agent that is under contract to carry out the duties and responsibilities. See Note (8).

(c) Every Student Succeeds Act -

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

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

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

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

(d) Current Single Audit -

The Report on Compliance and Internal Control Over Compliance Applicable to Each Major Federal Award Program issued in connection with the single audit for the year ended June 30, 2019, presents findings that are considered events of noncompliance with applicable laws and regulations and significant deficiencies in internal control over compliance. Some of these significant deficiencies were also considered material weaknesses. Additionally, the schedule of findings and questioned costs in the single audit report includes questioned costs amounting to \$5,271,231.

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Notes to Statement of Cash Receipts and Cash Disbursements June 30, 2019

(e) **Other Audits** -

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

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

(f) **Other Litigation Matters** -

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

(8) **Subsequent Events:**

Certified Budget to the Puerto Rico Department of Education

On August 19, 2019, the Senate of Puerto Rico approved Senate Joint Resolution 399 ("RCS 399"), which assigns \$123 million from funds outside the Certified Budget to the PRDE to cover the costs associated with therapies and evaluations of students of PRDE's Special Education Program ("SEP").

Employees Retirement System

On September 26, 2019, an unanimous written consent, certified submission of the plan of adjustment for the Commonwealth of Puerto Rico, Employees Retirement System of the Government of the Commonwealth of Puerto Rico. Whereas, Section 104(j)(2) and 104(j)(3) of PROMESA provides that the Board must certify the submission of a plan of adjustment before such action is taken and certify a plan of adjustment only if it determines, in its sole discretion, that such plan of adjustment is consistent with the applicable certified fiscal plan.

Vacation and Sick Licenses

Act 167 of the year 2019, was created to amend subsection (c) of Article 3 of Law 44-1996, as amended, known as the "Ley de Cesión de Licencias por Vacaciones y Enfermedad", and Article 2.04 of Law 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.

Those Charged with Governance

On July 10, 2019, a federal authority filed criminal charges against the former Secretary of the PRDE, Julia B. Keleher. On July 16, 2019, the former secretary pleaded not guilty of the charges against her. As of the date of the auditors' report, the case is open and in process.

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Subsequently, on January 15, 2020, the U.S. Attorney for the District of Puerto Rico, W. Stephen Muldrow, announced that Julia B. Keleher, former Secretary of the PRDE, was indicted for her participation in a bribery scheme and conspiracy to commit honest services fraud. The Federal Bureau of Investigation is in charge of the investigation.

On August 7, 2019, the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board") announced that it will conduct an examination to determine whether the integrity of any of the services provided by BDO Puerto Rico and its affiliates ("BDO") was impaired or affected by alleged fraudulent or illegal activities of its former managing partner, who was recently charged by federal authorities. The investigation will be focused on audit, accounting and other services performed by BDO since 2016 to the Commonwealth and its instrumentalities. BDO held approximately 96 contracts with the Commonwealth and its instrumentalities during the period in question. As of June 30, 2019, PRDE made payments of approximately \$8.2 million to BDO for services performed.

On January 27, 2020, the Oversight Board requested PRDE to provide all financial materials including, but not limited to, records, documents and data in connection to BDO's financial services rendered since the beginning of fiscal year 2015.

On February 7, 2020, the Oversight Board announced that it had selected UHY Advisors Inc. to review the audit and consulting services provided by BDO since 2016 to the Commonwealth of Puerto Rico and various agencies.

On July 30, 2020, UHY Advisors Inc. issued a report stating that BDO properly supported the professional judgments and conclusions reached in the services performed.

Specific Conditions – Federal Fiscal Year 2019

As a result of the specific conditions that PRDE received from the USDE on June 28, 2019, PRDE was required to procure the services of a third-party fiduciary agent to perform financial management duties required under federal laws and regulations for all USDE awards made to the agency.

In compliance to meet this requirement, PRDE developed the Request for Proposal for Third-Party Fiduciary Agent Services (RFP) corresponding to funds granted by the United States Department of Education (USDE), in compliance with federal and state regulations and standards, and publicly issued on October 11, 2019. PRDE completed the evaluation process and on February 21, 2020 issued the Notice of award for Third Party Fiduciary services.

Subsequently, on February 27, 2020, USDE issued communication with the approval of the evaluation and selection process held by the PRDE.

Earthquakes

On December 29, 2019, Puerto Rico started to experience seismic events. On the dawn of January 7, 2020, an earthquake of a magnitude of 6.4 hit the southwest area of the Island, that was felt throughout all of Puerto Rico. Shortly after, that same morning, another one of similar magnitude stroke again. These natural disasters caused severe structural damage in schools, higher education institutions, and buildings where PRDE's day to day operations take place.

On January 16, 2020, President Trump declared major disaster in the southern regions of Puerto Rico and ordered Federal assistance to supplement the Commonwealth and local recovery efforts.

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Notes to Statement of Cash Receipts and Cash Disbursements June 30, 2019

Pandemic COVID19

On March 11, 2020, the World Health Organization decreed a "pandemic" as a consequence of the global spread of the Coronavirus (COVID-19). The following day, March 12, 2020, the Governor of Puerto Rico issued the Executive Order No. OE-2020-020, declaring Puerto Rico in a state of emergency due to the confirmed cases of the Coronavirus on our island. In this Executive Order, the Governor required all government agencies in Puerto Rico to implement all of the necessary measures to prevent and control the spread of this virus, protect the well-being of all residents of Puerto Rico, ordering agencies to handle this emergency with the promptness and efficiency it merits, ultimately leading to a partial closure of the administrative offices.

Aligned with the effects of COVID-19, on April 9, 2020, Act 36 known as "Distance Work Act of the Government of Puerto Rico" was signed. This allows the implementation and development of Teleworking or Remote Work, as a labor option for all qualified government employees. With this concept, the Government of Puerto Rico seeks to streamline processes, reduce expenses on profits and leases, in addition to providing a more flexible work option for its workforce. Even though the Act was put into effect immediately, full implementation of this Program would occur during Fiscal Year 2020-2021.

That same day, Law No. 37 was signed, with the intended purpose of amending Section 6 of Act 180-1998, known as the "Puerto Rico Minimum Wage, Vacation and Sick Leave Act," with the purpose of establishing that, during declarations of state of emergency decreed by the Governor of Puerto Rico or by the secretary of the Department of Health, the employee who suffers or has suspected that he suffers the disease that caused the state of emergency, once all the licenses to which the employee is entitled have been exhausted, may use a special leave if an emergency is declared by the Governor of Puerto Rico or by the secretary of the Department of Health, of up to five (5) working days with pay; and for other related purposes.

Later, on April 21, 2020, the Governor of Puerto Rico and the Supervisory Board and Financial Administration for Puerto Rico allocated \$240 million for the purchase of tablets, software and provide the necessary training to approximately 325,000 students, teachers, and school directors from the Puerto Rico Department of Education. The \$240 million includes a combination of state and federal funds under the "Restart" Program. The distance learning plan would now become a regular tool in the educational policies of the Department of Education.

On April 23, 2020, the US Department of Education assigned \$349,113,105 to Puerto Rico, as part of the approximately \$13.2 billion allocated to the Elementary and Secondary School Emergency Relief Fund (ESSER Fund), authorized under section 18003 of the CARES Act. The ESSER Funds will provide emergency relief to address the impact that COVID-19 has had, and will continue to have, on elementary and secondary schools in Puerto Rico.

In addition, through the CARES Act, the US Department of Education made available other \$3,315,937 for the Higher Education Emergency Relief Fund-IHE/Student Aid, allocating from the total funding, \$1,657,969 directly to the postsecondary institutions so they may provide emergency financial aid grants to students whose lives have been disrupted due to the pandemic, many of whom are facing financial challenges and to help cover expenses related to the disruption of campus operations due to the COVID-19.

Also, Section 18002(b) of the CARES Act required the U.S. Department to allocate 60 percent of funds reserved for the Governor's Emergency Education Relief (GEER) Fund based on each State's relative population of individuals aged 5 through 24, and 40 percent based on each State's relative number of children counted under section 1124(c) of the Elementary and Secondary Education Act of 1965. This made available other \$47,812,236 to enable the Governor of Puerto Rico to decide how best to meet the needs of students, schools (including charter schools and non-public schools), postsecondary institutions, and other education-related organizations.

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**Notes to Statement of Cash Receipts and Cash Disbursements
June 30, 2019**

2020 Fiscal Plan

On May 27, 2020, the Financial Oversight and Management Board for Puerto Rico certified the 2020 Fiscal Plan. The 2020 Fiscal Plan provides a one-year pause in most categories of government rightsizing to allow the Government to focus on implementation of efficiency reforms. Rather than further delaying progress, the purpose of this pause is to ensure every possibility of successful, focused implementation. The Oversight Board has long recognized that significant and thoughtful investment in the educational system is key to a stronger economic future for Puerto Rico. The 2020 Fiscal Plan includes over \$760 million for strengthening English Language Learning training for teachers, bringing psychologists on staff to provide evidence-based therapies for Special Education students, hiring additional public-school nurses, driving digitization to improve management and reporting, and compensating transitory teachers and directors, not included from the FY2019 and FY2020 salary raises previously funded by the Oversight Board. Another investment considered in the 2020 Fiscal Plan addresses strengthening the technology sector, ensuring that all residents of Puerto Rico can take advantage of the well-documented socioeconomic benefits afforded by Internet connections (e.g., telehealth, distance learning, remote work). The 2020 Fiscal Plan also recognizes that skills in technology are critical for the future workforce; therefore included \$50 million in funding to invest in workforce development, specifically focused on business and technology-related disciplines.

**Puerto Rico Department of Education
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**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019**

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying | Passed Through to Subrecipients | Total Federal Expenditures |
|---|------------------------|---------------------------------------|------------------------------------|-------------------------------|
| U.S. Department of Agriculture: | | | | |
| Child Nutrition Cluster: | | | | |
| Non-cash assistance (commodities): | | | | |
| National School Lunch Program | 10.555 | | \$ - | \$ 5,504,754 |
| Cash assistance: | | | | |
| National School Lunch Program | 10.555 | | 128,182,552 | 128,182,552 |
| Summer Food Service Program for Children | 10.559 | | 6,884,541 | 7,119,972 |
| Child and Adult Care Food Program | 10.558 | | 25,779,828 | 26,188,402 |
| State Administrative Expenses for Child Nutrition | 10.560 | | - | 2,218,789 |
| Child Nutrition Discretionary Grants Limited Availability | 10.579 | | 333,558 | 333,558 |
| Fresh Fruit and Vegetable Program | 10.582 | | 97,578 | 97,578 |
| Total U.S. Department of Agriculture | | | 161,278,057 | 169,645,605 |
| National Endowment of the Humanities: | | | | |
| Grants to States | 45.310 | | 152,708 | 1,410,663 |
| U.S. Department of Education: | | | | |
| Adult Education - Basic Grants to States | 84.002 | | 1,238,866 | 3,298,558 |
| Student Financial Assistance Cluster: | | | | |
| Federal Supplemental Educational Opportunity Grants | 84.007 | | - | 95,780 |
| Federal Work-Study Program | 84.033 | | - | 193,900 |
| Federal Pell Grant Program | 84.063 | | - | 9,033,578 |
| Title I Grants to Local Educational Agencies | 84.010 | | - | 409,293,646 |
| Title I State Agency Program for Neglected and Delinquent Children and Youth | 84.013 | | - | 523,206 |
| Special Education Cluster: | | | | |
| Special Education Grants to States | 84.027 | | - | 115,060,955 |
| Special Education Preschool Grants | 84.173 | | - | 2,348,400 |
| Impact Aid | 84.041 | | - | 1,734,373 |
| Career and Technical Education -- Basic Grants to States | 84.048 | | - | 19,173,432 |
| Education for Homeless Children and Youth | 84.196 | | - | 2,227,463 |
| Twenty-First Century Community Learning Centers | 84.287 | | 12,583,319 | 13,166,007 |
| English Language Acquisition State Grants | 84.365 | | - | 5,057,010 |
| Mathematics and Science Partnerships | 84.366 | | - | 2,594,869 |
| Supporting Effective Instruction State Grants | 84.367 | | - | 28,598,065 |
| Grants for State Assessments and Related Activities | 84.369 | | - | 2,926,784 |
| Statewide Longitudinal Data Systems | 84.372 | | - | 11,752 |
| School Improvement Grants | 84.377 | | - | 8,779,500 |
| Student Support and Academic Enrichment Program | 84.424 | | - | 70,769 |
| National Assessment of Educational Progress (NAEP) | | | | |
| Secondary Analysis | 84.902 | | - | 1,394 |
| Immediate Aid to Restart School Operations | 84.938A | | - | 37,814,397 |
| Assistance for Serving Homeless Children and Youth | 84.938B | | - | 559 |
| Temporary Emergency Impact Aid for Displaced Students | 84.938C | | - | 69,212,071 |
| Emergency Assistance to IHEs | 84.938G | | - | 126,547 |
| Total U.S. Department of Education | | | 13,822,185 | 731,343,015 |
| U.S. Department of Health and Human Services: | | | | |
| Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance | 93.079 | | - | 33,120 |
| U.S. Department of Homeland Security: | | | | |
| Disaster Grants - Public Assistance (Passed-through from | | | | |
| Central Recovery and Reconstruction Office of Puerto Rico) | 97.036 | 000-ULGE2-00 | - | 24,542,495 |
| Total Expenditures of Federal Awards | | | \$ 175,252,950 | \$ 926,974,898 |

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**Notes to Schedule of Expenditures of Federal Awards
June 30, 2019**

(1) Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Puerto Rico Department of Education ("PRDE" or "the Entity") under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

(2) Summary of Significant Accounting Policies:

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

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

(3) Clusters:

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

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

(4) Program Costs:

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

(5) Non-Cash Assistance – Commodities:

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

(6) Schoolwide Program Funds:

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

**Puerto Rico Department of Education
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**Notes to Schedule of Expenditures of Federal Awards
June 30, 2019**

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

| <u>CFDA No.</u> | <u>Name of Federal Program</u> | <u>Expenditures in the Consolidated Fund</u> |
|-----------------|---|--|
| 84.010 | Title I Grants to Local Educational Agencies | \$ 307,400,078 |
| 84.365 | English Language Acquisition State Grants | 2,846,139 |
| 84.367 | Supporting Effective Instruction State Grants | 588,074 |
| N/A | Community School Program - State Funds | 635,481,219 |
| | | <u>\$ 946,315,510</u> |

(7) Consolidated Program Funds:

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

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

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

| <u>CFDA No.</u> | <u>Name of Federal Program</u> | <u>Expenditures in the Consolidated Fund</u> |
|-----------------|--|--|
| 84.010 | Title I Grants to Local Educational Agencies | \$ 21,475,455 |
| 84.367 | Supporting Effective Instruction State Grants | 2,043,397 |
| 84.287 | Twenty-First Century Community Learning Grants | 407,222 |
| 84.365 | English Language Acquisition State Grants | 146,905 |
| 84.424 | Student Support and Academic Enrichment Program | 70,769 |
| 84.013 | Title I State Agency Program for Neglected and Delinquent Children and Youth | 3,973 |
| | | <u>\$ 24,147,721</u> |

(8) Indirect Cost Rate:

The amount expended includes \$91.9 million claimed as an indirect cost recovery using an approved indirect cost rate of 6% for school lunch programs and 4% for all other programs based on salaries and wages, including fringe benefits.

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

**Honorable Eligio Hernández
Secretary
Department of Education of the
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We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Cash Receipts and Cash Disbursements (the "Statement") of the Puerto Rico Department of Education ("PRDE" or "the Entity"), for the year ended June 30, 2019 and the related notes to the financial statement, which collectively comprise the Entity's basic financial statement, and have issued our report thereon dated November 19, 2020. Our report includes an emphasis of a matter paragraph which states along with other matters, that PRDE as an executive agency of the Commonwealth of Puerto Rico faces significant risks and uncertainties, including liquidity risk. These conditions raise substantial doubt about PRDE's ability to continue as a going concern. Our report also includes a paragraph indicating that the Statement only purports to present the cash receipts and cash disbursements attributable to the Entity.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important to merit the 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 weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as items 2019-001 and 2019-002, that we consider to be significant deficiencies.



Compliance and Other Matters

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

PRDE's Response to Findings

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

Purpose of this Report

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

San Juan, Puerto Rico,
November 19, 2020.



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

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

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Report on Compliance for Each Major Federal Program

We have audited the **Puerto Rico Department of Education’s** (“PRDE” or “the Entity”) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of PRDE’s major federal programs for the year ended June 30, 2019. PRDE’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

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

Auditor’s Responsibility

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

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

Basis for Qualified Opinion on Major Federal Programs

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

| Finding # | Compliance Requirement | CFDA# | Program (or Cluster) Name |
|------------------|-------------------------------|--------------------------|---|
| 2019-008 | Special Tests and Provisions | 84.007/84.033/ 84.063 | Student Financial Assistance Cluster |
| 2019-009 | Procurement | | All Major Programs |
| 2019-010 | Reporting | 84.007/84.033/ 84.063 | Student Financial Assistance Cluster |
| 2019-011 | Special Tests and Provisions | 84.007/84.033/ 84.063 | Student Financial Assistance Cluster |
| 2019-012 | Special Tests and Provisions | 84.007/84.033/ 84.063 | Student Financial Assistance Cluster |
| 2019-015 | Special Tests and Provisions | 84.938C | Temporary Emergency Impact Aid for Displaced Students |

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

Qualified Opinion on Major Federal Programs

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, PRDE complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as findings 2019-001 through 2019-007, 2019-013, 2019-014, and 2019-016 through 2019-018. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 2019-008 through 2019-012 and 2019-015 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 2019-001 through



2019-004, 2019-006, 2019-007, 2019-013, 2019-014 and 2019-016 through 2019-018, to be significant deficiencies.

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

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

San Juan, Puerto Rico,
November 19, 2020.



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

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

Section I - Summary of Auditor's Results

Financial Statement -

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

· Material weakness(es) identified? yes X no

· Significant deficiency(ies) identified that are not considered to be material weakness(es)? X yes none reported

Noncompliance material to financial statement noted? yes X no

Federal Awards -

Internal control over major programs:

· Material weakness(es) identified? X yes no

· Significant deficiency(ies) identified that are not considered to be material weakness(es)? X yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes no

Identification of Major Programs –

CFDA Number

Name of Federal Program

| | |
|---------|--|
| 10.555 | Child Nutrition Cluster |
| 10.559 | National School Lunch Program |
| 10.558 | Summer Food Service Program for Children |
| 84.002 | Child and Adult Care Food Program |
| 84.007 | Adult Education – Basic Grants to States |
| 84.033 | Student Financial Assistance Cluster |
| 84.063 | Federal Supplemental Educational Opportunity Grants |
| 84.010 | Federal Work-Study Program |
| 84.027 | Federal Pell Grant Program |
| 84.173 | Title I Grants to Local Educational Agencies |
| 84.048 | Special Education Cluster |
| 84.287 | Special Education Grants to State |
| 84.365 | Special Education Preschool Grants |
| 84.367 | Career and Technical Education -- Basic Grants to States |
| 84.377 | Twenty-First Century Community Learning Centers |
| 84.938A | English Language Acquisition State Grants |
| 84.938C | Supporting Effective Instruction State Grants |
| 97.036 | School Improvement Grants |
| | Immediate Aid to Restart School Operations |
| | Temporary Emergency Impact Aid for Displaced Students |
| | Disaster Grants - Public Assistance |

Dollar threshold used to distinguish between type A and type B programs: **\$3,000,000**

Auditee qualified as low-risk auditee? yes X no

Section II - Financial Statement Findings

Financial statement findings comprise of findings 2019-001 and 2019-002. Refer to Section III - Federal Award Findings and Questioned Costs, for a detailed description of the findings.

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

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

Section III- Federal Award Findings and Questioned Costs

Finding Number: 2019-001

Federal Programs: CFDA No. 10.559; National School Lunch Program
 CFDA No. 84.002; Adult Education – Basic Grants to States
 CFDA No. 84.010; Title I Grants to Local Educational Agencies
 CFDA No. 84.027; Special Education – Grants to State
 CFDA No. 84.041 Impact Aid
 CFDA No. 84.048; Career and Technical Education - Basic Grants to States
 CFDA No. 84.367; Supporting Effective Instruction State Grants

Grant Award Numbers: H027A140003 (7/1/2014 – 9/30/2015), H027A160003 (7/1/2016 - 9/30/2018),
 H027A170003 (7/1/2017 - 9/30/2019), H027A180003 (7/1/2018 - 9/30/2020),
 S010A170052 (7/1/2017 - 9/30/2019), S010A180052 (7/1/2016 - 9/30/2020),
 S041B20135689, 161PR300306 (10/1/2015 – 9/30/2016), V048A180052 (7/1/2018 -
 9/30/2020), S367A180052 (7/1/2018 - 9/30/2020), V002A170053 (7/1/2017 - 9/30/2019)

Category: Financial Statement Finding
 Internal Control / Compliance

Compliance Requirement: Allowable Costs / Cost Principles

Condition:

As part of our audit procedures, we obtained an accounts receivable listing and identified duplicated payments issued during the year ended June 30, 2019, distributed as follows:

| <u>CFDA</u> | <u>Description</u> | <u>Receivable Balance</u> |
|---------------------------------|---|-------------------------------|
| <i><u>Federal Programs:</u></i> | | |
| 84.027 | Special Education - Grants to State | \$ 66,631 |
| 84.010 | Title I Grants to Local Educational Agencies | 27,473 |
| 84.041 | Impact Aid | 24,174 |
| 10.559 | Summer Food Service | 20,220 |
| 84.048 | Career and Technical Education | 5,675 |
| 84.367 | Supporting Effective Instruction State Grants | 2,816 |
| 84.002 | Adult Education - Basic Grants to States | 885 |
| | | <u>147,874</u> |
| <i><u>Others:</u></i> | | |
| N/A | Schoolwide | 2,170,426 |
| N/A | School Food Authority | 76,146 |
| N/A | Consolidated Funds | 18,014 |
| | | <u>2,264,586</u> |
| N/A | State Funds | 4,073,081 |
| | Total others | <u>6,337,667</u> |
| Total improper payments - 2019 | | <u>\$ 6,485,541</u> |

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

Schedule of Findings and Questioned Costs Year Ended June 30, 2019

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

A similar finding was reported last year as item 2018-002.

Questioned costs related to this situation amount to \$147,874.

A portion of the \$2,264,586 included in the accounts receivable balance relates to federal programs. Questioned costs related to these federal programs included within this balance are not determinable.

Criteria:

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

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

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

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

2 CFR Section 200.53 – Improper Payments - (a) Improper payment means any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and (b) Improper payment includes any payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), any payment that does not account for credit for applicable discounts, and any payment where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper.

Cause:

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

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

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

Effect:

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

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

Questioned costs:

| | | |
|-------------------|-------------|---|
| \$ 66,631 | CFDA 84.027 | Special Education - Grants to States |
| 27,473 | CFDA 84.010 | Title I Grants to Local Educational Agencies |
| 24,174 | CFDA 84.041 | Impact Aid |
| 20,220 | CFDA 10.559 | Summer Food Service Program for Children |
| 5,675 | CFDA 84.048 | Career and Technical Education - Basic Grants to States |
| 2,816 | CFDA 84.367 | Supporting Effective Instruction State Grants |
| 885 | CFDA 84.002 | Adult Education - Basic Grants to States |
| <u>\$ 147,874</u> | | |

Recommendation:

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

Management response:

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

Due to the fact that approximately 98% of the outstanding balance of accounts receivable relates to improper payroll payments, PRDE continues to work on the project for the implementation of automating its process to prevent improper salary payments, overpayments and/or payments to employees without accumulated vacations or sick leave balances, among others.

PRDE's Human Resource Office developed a new policy of Time, Attendance and Tardiness, effective July 2019. That same month, during the Annual PRDE School Director's Convention, they coordinated and held an extensive training session about its applicability and severity to more than 900 school directors who will now be entrusted to transfer that knowledge among other employees of their respective schools.

In relation to the timely collection of accounts receivable balances, Payroll and Finance units have begun working on revisions to existing procedures in order to: (a) promptly identify existing employees without accumulated vacation or sick leave balance; (b) calculate any overpayments; and (c) establish payment plans to collect balances owed through payroll deductions.

Contact persons: Amarillys Silver Rodríguez, Undersecretary of Administration
 Evelyn Rodríguez Cardé, Director of Finance
 Judith Parrilla Rivera, Accounts Receivable Supervisor

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

Schedule of Findings and Questioned Costs Year Ended June 30, 2019

Finding Number: 2019-002

Federal Programs: CFDA No. 84.027; Special Education – Grants to States
CFDA No. 84.367; Supporting Effective Instruction State Grants

Grant Award Numbers: H027A180003 (7/1/2018 - 9/30/2020), S367A180052 (7/1/2018 - 9/30/2020)

Category: Financial Statement Finding
Internal Control / Compliance

Compliance Requirement: Allowable Costs / Cost Principles / Cash Management

Condition:

During our testing of internal controls, compliance and financial audit procedures, we selected a total of one hundred and forty-four (144) employees for our testing procedures. While performing our review over the physical personnel files maintained by the Human Resources department and the payroll stubs and evidence provided by the Payroll department, we noted the following matters and exceptions:

- In three (3) instances of one hundred and forty-four (144), Form 499R-4 was missing from the files examined.
- In three (3) instances of one hundred and forty-four (144), Medicare withholdings were not properly made.

Criteria:

2 CFR Section 200.431(c) The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation insurance (except as indicated in §200.447 Insurance and indemnification); pension plan costs; and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits, must be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities, and charged as direct or indirect costs in accordance with the non-Federal entity's accounting practices.

The Puerto Rico Treasury Department requires the proper completion of the Withholding Exemption Certificate (Form 499-R-4) for each employee. The employer shall consider information provided by the employee in this Form regarding personal exemption, exemption for dependents and allowance for deductions to withhold according to the Manual for Employers on Withholding at Source of Income Tax on Wages corresponding to any taxable year. This Form should be included in the employees' files to support the income tax withholding on payroll payments.

Cause:

Management does not maintain effective monitoring to ensure propriety of payroll payments and its corresponding withholdings. Management does not have effective controls as to monitor payroll records once they are processed by the Puerto Rico Treasury Department to ascertain withholdings are properly made.

Effect:

The above condition reflects that established procedures are not being followed and consequently, documents required by local law are not consistently obtained and/or properly filed.

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

Schedule of Findings and Questioned Costs Year Ended June 30, 2019

Questioned Costs:

None.

Recommendation:

PRDE should ascertain that all forms are filed and contributions withheld and deposited in compliance with the required laws and deadlines. Compliance will avoid the payments of interest, penalties and surcharges. Also, the Entity should promptly submit to the corresponding agency, all missed withholdings on behalf of the affected employee.

Management Response:

PRDE is committed to comply with its established policies. As so, the PRDE has distributed to all its human resources and payroll staff a written notice of the required Medicare withholding and documentation that needs to be kept in the personnel's files. This, as a way to reinforce the already implemented policies and procedures that prove to be effective since its implementation in 2015, as no exceptions related to this matter have been found by external auditors for 5 consecutive years. A compliance monitoring process is in place to ensure proper documentation of transactions in personnel records.

On January 30, 2015, PRDE's Auxiliary Secretary of Human Resources issued a memorandum titled "Required Documents in the Personnel File." This memorandum emphasized the importance of maintaining all required documentation in the personnel files and instructed employees to maintain the necessary accurate and timely information, forms, certifications, memoranda and other documentation regarding the human resources history and transactions for its employees. Personnel within multiple offices and branches of PRDE were trained on this memorandum.

Also, all PRDE staff working with personnel files are required to complete a checklist of the required documents for each personnel file.

PRDE understands that reinforcing its policies and procedures to all its Human Resources and Payroll staff will result in the non-recurrence of this finding.

Contact persons: Carlos M. Rivera Montañez, Interim Auxiliary Secretary of Human Resources
Nannette M. Jiménez Osorio, Assistant of the Auxiliary Secretary of Human Resources

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

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

Finding Number: 2019-003

Federal Programs: CFDA No. 10.555 and 10.559; Child Nutrition Cluster
 CFDA No. 10.558; Child and Adult Care Food Program
 CFDA No. 84.002; Adult Education - Basic Grants to States
 CFDA No. 84.007, 84.033, 84.063; Student Financial Assistance Cluster
 CFDA No. 84.048; Career and Technical Education - Basic Grants to States
 CFDA No. 84.287; Twenty-First Century Community Learning Centers
 CFDA No. 84.377; School Improvement Grants

Grant Award Numbers: V048A170052 (7/1/2017 - 9/30/2019), S377A160053 (7/1/2016 - 9/30/2018),
 181PR300306 (10/1/2017 - 9/30/2018), 191PR300306 (10/1/2018 - 9/30/2019),
 V002A170053 (7/1/2017 - 9/30/2019), V002A180053 (7/1/2018 - 9/30/2020),
 S287C170039 (7/1/2017 - 9/30/2018), P063P180414 (7/1/2018 - 6/30/2019)

Category: Internal Control / Compliance

Compliance Requirement: Cash Management

Condition:

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

- In one (1) of two hundred and five (205) disbursements selected for testing, the federal funds deposited to the Entity's account were disbursed after the required time frame of three (3) business days of their availability. A similar finding was reported last year as finding 2018-005.

The exception noted under the program during the performance of our tests was as follows:

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

| Voucher Number | Check Number | Check Date | Deposit Date | Days over 3 Day Limit | Amount |
|----------------|--------------|------------|--------------|-----------------------|---------------|
| 901750 | 14059 | 4/30/2019 | 4/24/2019 | 1 | \$ 233,142.50 |

- In testing compliance and internal control over the cash management requirement for the Student Financial Aid cluster, the auditors selected a sample of eight (8) draw-downs out of eighty-nine (89) draw requests during FY 2018-19 in the G5 system and noted on twelve (12) payments out of 2,549 payments within the eight (8) draws selected, that these were disbursed after the required time frame of three (3) business days of their availability.

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

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

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

| Voucher Number | Check Number | Check Date | Deposit Date | Days over 3 Day Limit | Amount |
|----------------|--------------|------------|--------------|-----------------------|-------------|
| IP008645 | 00212574 | 2/14/2019 | 10/25/2018 | 80 | \$2,527.50 |
| IP008951 | 00013065 | 1/25/2019 | 12/6/2018 | 36 | 2,932.50 |
| 00879845 | 00210403 | 1/3/2019 | 12/20/2018 | 10 | 2,272.50 |
| 00879662 | 00211547 | 1/23/2019 | 12/20/2018 | 24 | 2,332.50 |
| 00879811 | 00210374 | 1/3/2019 | 12/20/2018 | 10 | 2,227.50 |
| 00879741 | 00012000 | 1/3/2019 | 12/20/2018 | 10 | 2,572.50 |
| 00879740 | 00012038 | 1/4/2019 | 12/20/2018 | 11 | 1,822.00 |
| 00879739 | 00012006 | 1/3/2019 | 12/20/2018 | 10 | 2,452.50 |
| 00879738 | 00012041 | 1/4/2019 | 12/20/2018 | 11 | 2,452.50 |
| 00879737 | 00210389 | 1/3/2019 | 12/20/2018 | 10 | 2,272.50 |
| 00879735 | 00011993 | 1/3/2019 | 12/20/2018 | 10 | 1,289.00 |
| 00879733 | 00011991 | 1/3/2019 | 12/20/2018 | 10 | 2,332.50 |
| | | | | | \$27,486.00 |

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

- In one (1) instance out of two hundred and five (205) disbursements selected for testing, the federal funds were deposited to the Entity's account prior to the date of the check.

The exception noted under the program during the performance of our tests was as follows:

CFDA No. 84.377; School Improvement Grants

| Voucher Number | Check Number | Check Date | Deposit Date | Days Prior to the Date of Reimbursement | Amount |
|----------------|--------------|------------|--------------|---|---------------|
| 19AP4743 | 203108 | 9/13/2018 | 9/12/2018 | 1 | \$ 100,483.40 |

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

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

- In seven (7) instances out of two hundred and five (205) disbursements selected for testing, we identified that check clearance date was several days after being issued as further detailed below. Management was unable to prove when the checks were actually released to its intended recipients since checks are delivered by the Puerto Rico Treasury Department. The time elapsed for check clearance may be caused by delays in the deposits made by the supplier, vendor or sub-recipient or by internal delays in the processing of the payment. This deficiency is considered an internal control finding.

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

CFDA No. 10.555 and 10.559; Child Nutrition Cluster

| Voucher Number | Check Number | Check Date | Check Clearance Date | Days over 30 Days | Amount |
|----------------|--------------|------------|----------------------|-------------------|--------------|
| 920339 | 241258 | 6/13/2019 | 10/15/2019 | 122 | \$ 14,437.55 |
| 870464 | 204733 | 10/23/2018 | 12/18/2018 | 55 | 23,271.86 |
| | | | | | \$ 37,709.41 |

CFDA No. 10.558; Child and Adult Care Food Program

| Voucher Number | Check Number | Check Date | Check Clearance Date | Days over 30 Days | Amount |
|----------------|--------------|------------|----------------------|-------------------|-------------|
| 19AP8431 | 199324 | 7/26/2018 | 9/12/2018 | 46 | \$ 6,856.37 |
| 19AP5071 | 198763 | 7/17/2018 | 8/31/2018 | 43 | 2,579.16 |
| | | | | | \$ 9,435.53 |

CFDA No. 84.002; Adult Education - Basic Grants to States

| Voucher Number | Check Number | Check Date | Check Clearance Date | Days over 30 Days | Amount |
|----------------|--------------|------------|----------------------|-------------------|-------------|
| 867031 | 9277 | 11/8/2018 | 6/13/2019 | 215 | \$ 2,169.29 |
| 892554 | 240200 | 6/6/2019 | 1/27/2020 | 231 | 154.54 |
| | | | | | \$ 2,323.83 |

CFDA No. 84.287; Twenty-First Century Community Learning Centers

| Voucher Number | Check Number | Check Date | Check Clearance Date | Days over 30 Days | Amount |
|----------------|--------------|------------|----------------------|-------------------|--------------|
| 19AP7001 | 00202254 | 9/5/2018 | 11/19/2018 | 74 | \$ 33,464.89 |

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Criteria:

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

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

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

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

Cause:

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

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

Effects:

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

Questioned Costs:

None.

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Recommendation:

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

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

Management response:

PRDE developed new procedures in its Accounting System (SIFDE) to automate the payment system and has made significant progress in designing and implementing additional internal controls to prevent recurring findings. As mentioned in letter sent by the Audit Resolution Division (ARD) on February 26, 2020, the ARD acknowledges the progress made so far.

PRDE is now entering into a contract with a third-party fiduciary agent that will perform financial management duties currently performed by PRDE, and that is required under EDGAR 34 CFR Parts 75 and 76, and 2 CFR Part 200, for all ED grants awarded by ED to PRDE on or after the date of the June 28, 2019 specific conditions, and for all grants previously awarded by ED to PRDE that are still available for obligation or liquidation on the date of the specific conditions.

Therefore, PRDE will abide by all terms and conditions listed in the June 28, 2019 specific conditions and ensure that our cash management policies and corrective actions are aligned with Federal regulations, the same that require PRDE to minimize the time elapsing between the transfer of funds and disbursement.

Contact person: Evelyn Rodríguez Cardé, Director of Finance
Judith Parrilla Rivera, Accounts Receivable Supervisor

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Finding Number: 2019-004

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

Grant Award Numbers: S010A150052 (7/1/2015 – 9/30/2018), S010A160052 (7/1/2016 – 9/30/2018),
S010A170052 (7/1/2017 – 9/30/2019), S010A180052 (7/1/2018 – 9/30/2020)

Category: Internal Control

Compliance Requirement: Eligibility

Condition:

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

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

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

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

| Number | Socioeconomic physically counted | Socioeconomic study entered on SIE | Difference |
|---------------|---|---|-------------------|
| 01. | 629 | 668 | (39) |
| 02. | 390 | 432 | (42) |
| 03. | 701 | 1,311 | (610) |
| 04. | 190 | 244 | (54) |

Also, from the five (5) schools we visited, we were able to physically examine 2,020 "Datos de unidad familiar" forms and noticed that a total of 633 forms or 31% were not signed by the parent/in charge.

2. In each of the five (5) schools visited, we randomly selected twelve (12) forms "Datos de unidad familiar: Estudio Socio Económico Año 2017-2018" from each school considered for socioeconomic report to ensure that income on the form equals income entered on SIE. We found that from a total of sixty (60) forms examined and traced to SIE data, on thirty-three (33) forms or 55%, the income reported does not equal SIE data. Moreover, we found that fourteen (14) out of the sixty (60) or 23% of forms examined, the number of family members included in the form were not equal to family members entered in SIE. Also, we found that in four (4) forms of a total of 60 examined, the date of birth on student files does not equal SIE data.
3. In one (1) of the five (5) schools visited, we noticed that in two (2) of the twelve (12) students' files examined in the school, no socioeconomic physical form was available for review.

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4. In one (1) of the five schools visited, the forms used for the socioeconomic study were not the ones that corresponded to the year 2017-2018. The version used did not required the parents' signature.
5. One (1) of 2,020 physical forms of "Datos de Unidad Familiar" where archived at the student file.

A similar finding was reported last year as item 2018-006.

Criteria:

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

Cause:

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

Effects:

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

Questioned Costs:

Could not be determined.

Recommendation:

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

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

Management response:

During February 2018, PRDE implemented an electronic process for the pre-enrollment of the 2018-2019 academic year. The electronic pre-enrollment process facilitated the flow of information for real-time decision making, streamlining the internal processes of the Department. However, in its first year of implementation, the electronic pre-enrollment process did not substitute the paperwork parents where required to complete the enrollment of its child, including the socioeconomic study data form. During that period, PRDE made enhancements to the electronic enrollment system and included the socioeconomic study data form in order for parents to register their child's personal information, family's income and composition.

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In November 2019, PRDE encouraged parents to initiate the enrollment process for the 2020-2021 Academic Year in the now enhanced online enrollment system. The enrollment period is still open and families are being able to use a computer at school to perform the enrollment process. However, paper forms will be available only for parents without computer or internet access, and School Directors will be responsible to submit any student information into the system. PRDE expects a reduction in this type of observation during next fiscal year.

Contact persons: Francisco Martínez Oronoz, Auxiliary Secretary for Federal Affairs
 Ileana Cortés Burgos, Title I Program Coordinator

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Finding Number: 2019-005

Federal Programs: CFDA No. 10.555 and 10.559; Child Nutrition Cluster

Grant Award Numbers: 1PR300336 (10/1/2018 – 9/30/2019)

Category: Internal control

Compliance Requirement: Special Tests and Provisions – Verification of Free and Reduced Price Applications (NSLP)

Condition:

During our internal control and compliance testing we identified one (1) instance of five (5) sponsors examined where the filing date of the Verification of Free and Reduced Price Applications document was completed after the required due date of November 15th of each year. As per the examination of the sponsor file, the Verification of Free and Reduced Price Applications document was completed on December 19, 2018.

Criteria:

7 CFR Part 245.6a establishes the following: (b) Deadline and extensions for local educational agencies - (1) Deadline: The local education agency must complete the verification efforts specified in paragraph (c) of this section not later than November 15 of each school year. (2) Deadline extensions: (i) The local educational agency may request an extension of the November 15 deadline, in writing, from the State agency. The State agency may approve an extension up to December 15 of the current school year due to natural disaster, civil disorder, strike or other circumstances that prevent the local educational agency from timely completion of verification activities.

Cause:

Effective controls were not in place to ensure the timely filing of the required documentation.

Effects:

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

Questioned Costs:

None.

Recommendation:

We recommend that management strengthen its internal control to ensure that all required documentation is accurately and timely filed.

Management response:

PRDE's management reviewed the exception stated by the auditors and considers this exception an isolated instance. PRDE's management is aware of the importance of timely issuing the Verification of Free and Reduced Price Applications to ensure compliance. On an annual basis, the program's internal control procedures are reviewed to ascertain compliance and timely filing of all required federal reports. However, due to a health-related unenforceable

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situation, the Verification of Free and Reduced Price Applications report for one sponsor was submitted after the required date. The Program has proven to be in compliance with all previous and subsequent submissions of its required federal reports. We understand auditors should provide a proper perspective regarding the prevalence and consequences of this finding considering this to be an isolated instance.

Contact persons: Lourdes N. García Santiago, Interim Director of State Agency, Food and Nutrition Services

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Finding Number: 2019-006

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

Grant Award Numbers: V048A180052 (71/2018 – 9/30/2020)

Category: Internal control / Compliance

Compliance Requirement: Level of Effort – Maintenance of Effort

Condition:

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

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

For FY 2017-2018, State funds expenditures on PRDE accounting records for Career and Technical Education program amounted to \$60,602,857 with a certified enrollment of 33,504 students. The dollar amount assigned per student was \$1,808.82.

Aggregated efforts decreased from FY 2016-2017 to FY 2017-2018 in the amount of \$10,194,961 or -14.40%. The State's per-student effort decreased by \$95.34 or -5.01%.

The student enrollment decreased from FY 2016-2017 to FY 2017-2018 by 3,676 students, while the States aggregate expenditures decreased by \$10,194,961. Therefore, per-student effort was reduced.

Under the per-student basis computation, the States' total aggregate expenditures amounted to \$60,602,857 and should have amounted to \$70,797,819. The rate per student amounted to \$1,808.82 and should have been \$1,904.19.

The State's aggregate expenditures should amount to at least \$70,797,819, matching total States expenditures for the second preceding year (Fiscal Year 2016-2017), to comply with Level of Effort – Maintenance-of-Effort under the aggregate basis of expenditures computation.

A similar finding was reported last year as item 2018-008.

Criteria:

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

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

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fiscal effort per student or the aggregate expenditures of such State for career and technical education programs for the fiscal year preceding the fiscal year for which the determination is made, equaled or exceeded such effort or expenditures for career and technical education programs for the second fiscal year preceding the fiscal year for which the determination is made.

Cause:

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

Effects:

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

Questioned Costs:

Could not be determined.

Recommendation:

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

Management response:

PRDE closely monitors compliance with the Maintenance of Effort (MOE) requirement. While PRDE has historically complied with this provision, in recent years, PRDE has experienced fluctuation in both federal and state funding for career and technical education. In addition, the Government of the Commonwealth of Puerto Rico has experienced challenging financial circumstances resulting in a decrease in the state budget for education for the past few years.

Further, due to the current financial circumstances in Puerto Rico and the Financial Oversight and Management Board's ultimate control over State funding, and most recently the adverse impacts of Hurricanes Irma and María, Puerto Rico can no longer rely on the same sources to calculate MOE and needs to revise its methodology.

The U.S. Department of Education (ED or the Department) has been cognizant of PRDE's need to revise its MOE methodology since the 2015 single audit process. Specifically, on November 9, 2016, PRDE received a Program Determination Letter (PDL) for the audit period July 1, 2014 through June 30, 2015. Finding 2015-011 noted that PRDE did not meet the MOE requirement under either of the two available computation methods. The Department sustained the auditors finding 2015-011 and requested: (1) revised policies and procedures to calculate MOE, and (2) spreadsheets showing actual expenditures for CTE for the two years in question.

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PRDE received a technical assistance visit from OCTAE during May 15-16, 2019, related to the implementation of the new Perkins V Act. During this visit, USDE requested additional information regarding the MOE state expenditures for FY's 2016-2017 and 2017-2018. USDE also indicated that it will provide this additional information to the Audit Division to finally conclude the resolution of these findings.

On February 21, 2020, PRDE received a communication from OCTAE concerning possible options for the PRDE to consider regarding the resolution of the outstanding audit issues related to the MOE for State fiscal years 2015-2016 thru 2018-2019. The PRDE submitted a waiver request for this purpose on June 5, 2020. On June 18, 2020, PRDE received another communication from OCTAE requesting additional information as part of our request evaluation. The PRDE successfully submitted to OCTAE this information on June 24, 2020 and is awaiting resolution of this matter. We are committed to comply with this requirement and will continue monitoring it periodically.

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

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Finding Number: 2019-007

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

Grant Award Numbers: P007A184591 (7/1/2018 - 6/30/2019), P033A184591 (7/1/2019 - 6/30/2019),
P063P184014 (7/1/2018 - 6/30/2019)

Category: Internal control / Compliance

Compliance Requirement: Reporting – Special Report – Late Submission of Fiscal Operations Report and Application to Participate

Condition:

In testing compliance and internal controls over Reporting - Special Report, the auditors obtained copy of the Fiscal Operations Report and Application to Participate ("FISAP") for the Award Year 2018-2019 and noted that the report was submitted late (on October 3, 2019; after the deadline date).

Criteria:

As stated in 2 CFR Section 200.328(b)(1) the non-Federal entity must submit performance and special reports at the interval required by the Federal awarding agency or pass-through entity to best inform improvements in program outcomes and productivity. As stated in the terms of the FISAP report, the CEO must provide the signed report by October 1, 2019.

Cause:

Management failed to monitor compliance with established due dates as stated in the terms of the special report.

Effects:

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

Questioned Costs:

Could not be determined.

Recommendation:

Management should emphasize the importance of submitting required reports within the required timeframes.

Management response:

PRDE disagrees with the auditor's finding in part. We recognize the importance of complying with the filing of all required reports as part of the responsibility to manage federal post-secondary education funds for students in the public system. We want to emphasize that the fiscal year 2018-19 FISAP report was timely filed on October 1st, 2019. However, is not until the data is entered into the system, that a final report is generated and PRDE proceeds on obtaining its CEO's signature, resubmitting the signed final FISAP report to the system. PRDE acknowledges that the FISAP report was filed on time except for the signature page, filed on October 3rd, 2019.

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PRDE will continue to work to ensure that this instance is not repeated in the future and that all report requirements are filed on or before their respective due dates.

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

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Finding Number: 2019-008

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

Grant Award Numbers: P063P184014 (7/1/2018 - 6/30/2019)

Category: Internal control / Compliance

Compliance Requirement: Special Tests and Provisions – Enrollment Reporting

Condition:

The PRDE did not submit the Enrollment Reporting Roster File updated to the National Student Loan Data System (“NSLDS”) and other information as required by federal regulations during fiscal year 2018-2019.

A similar finding was reported last year as item 2018-011.

Criteria:

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

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

Cause:

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

Effects:

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

Questioned Costs:

Could not be determined.

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Recommendation:

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

Management response:

PRDE understands the auditor's observations and agrees with this finding in part.

Recognizing the importance of complying with the submission of the information requested by federal regulations, PRDE has taken action to remedy the lack of submission of the NSLDS reports of all periods discovered to date. PRDE has shared with NSLDS offices the limitations that were faced to comply with the filing of the reports in the recent years and presented a plan to obtain the student's information needed to complete the reports. This process started a few months ago, a waiver request was submitted and granted covering all periods mentioned and PRDE has recovered all the student data needed to successfully file all pending reports.

Despite the additional challenges we are going through related to earthquakes and the COVID-19 pandemic, PRDE successfully submitted in May 2020 all the evidence of the reports that were pending without exceptions.

We are confident that the new process established to report the NSLDS data will allow us to continue filing every future report requested by any federal regulation.

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

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Finding Number: 2019-009

Federal Programs: All Major Programs

Grant Award Numbers: 181PR300306 (10/1/2017 – 9/30/2018), 191PR300306 (10/1/2018 – 9/30/2019), H027A160003 (7/1/2016 - 9/30/2018), H027A170003 (7/1/2017 - 9/30/2019), H027A180003 (7/1/2018 - 9/30/2020), H173A180002 (7/1/2018- 9/30/2019), S010A160052 (7/1/2016 - 9/30/2018), S010A170052 (7/1/2017 - 9/30/2019), S010A180052 (7/1/2016 - 9/30/2020), S287C170039 (7/1/2017- 9/30/2018), S365A150052 (7/1/2015 - 9/30/2018), S365A160052 (7/1/2016 - 9/30/2018), S365A170052 (7/1/2017 - 9/30/2019), S367A160052 (7/1/2016 - 9/30/2018), S367A170052 (7/1/2017 - 9/30/2019), S367A180052 (7/1/2018 - 9/30/2020), S938A180002 (4/26/2018 - 4/26/2020), S938C180021 (11/7/2018 - 12/31/2018), V002A160053 (7/1/2016 - 9/30/2018), V002A170053 (7/1/2017 - 9/30/2019), V002A180053 (7/1/2018 - 9/30/2020), V048A160052 (7/1/2016 - 9/30/2018), V048A170052 (7/1/2017 - 9/30/2019), V048A180052 (7/1/2018 - 9/30/2020), PA-02-PR-4339-PW-01039 (9/20/2017 - 5/30/2019)

Category: Internal Control / Compliance

Compliance Requirement: Procurement

Condition:

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

- In three (3) of five hundred forty-nine (549) disbursements examined, we noted that the non-federal entity was not able to provide records sufficient to detail the history of procurement for the amount of \$59,260.

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

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

A similar finding was reported last year as item 2018-015.

Criteria:

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

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

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

Cause:

Management risk assessment procedures failed to identify areas in the organization that have the highest risk, including procurement. Procurement procedures used (2007) do not contemplate revision to the procurement requirements contained in 2 CFR Part 200 recently in effect.

Effects:

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

Questioned Costs:

Could not be determined.

Recommendation:

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

Management response:

This past January 2020, Puerto Rico faced the unforeseen series of earthquakes that impacted the southern part of the island, resulting in the closure of school campuses and administrative offices. Two out of three instances stated in this finding are located at the affected region. Temporarily, PRDE does not have access to those procurement files, until professional personnel are able to access the affected infrastructure.

Regarding the third instance stated in the finding, PRDE understands the importance of this finding and is working continuously to strengthen its recordkeeping processes.

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

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

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

Finding Number: 2019-010

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

Grant Award Number: P063P164014 (7/1/2016 - 6/30/2017), P063P174014 (7/1/2017 - 6/30/2018),
P063P184014 (7/1/2018 - 6/30/2019)

Category: Internal Control / Compliance

Compliance Requirement: Reporting – COD Reporting

Condition:

In our internal controls and compliance testing as to the Common Origination and Disbursement (“COD”) reporting, we selected a sample of sixty (60) participants and noted that in nine (9) instances, payments made were not reported through the COD within the required timeframe and in four (4) instances the PRDE did not provide evidence of reporting the adjustments that should have been made through the student payment data in the COD System.

A similar finding was reported last year as finding 2018-016.

Criteria:

As per OMB No. 1845-0039, institutions must report student payment data within fifteen (15) calendar days after the school makes a payment or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data.

Cause:

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

Effects:

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

Questioned Costs:

None.

Recommendation:

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

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

Schedule of Findings and Questioned Costs Year Ended June 30, 2019

Management response:

“Instituto Tecnológicos de Puerto Rico” (“ITEC”) has entered into a purchase agreement with a renowned software development company which specializes in student information systems to include academics, financial aid and accounting, which will finally provide us the interface with ITEC’s ORACLE and PeopleSoft accounting systems. The ITEC has programmed that for the 2020-2021 Academic Year the new Student Information System (SIS) will allow the program to automatically register all the student aids that student is eligible to receive in that period.

With the implementation of the Campus IVY Core – Software License for Financial Aid Automation, in combination with the internal procedures that are being established, the ITEC will start the corrective actions process that will solve the identified findings.

Additional internal control strategies have been implemented at the Central Office to have double validation, one-on-one analysis, validation of information from one system before it enters the other systems (transfer of information between student information system to accounting system) and the unprecedented establishment of the “Financial Aid Unit” at the Central Office which was carefully drafted and developed with written guidelines and procedures as an internal control measure developing the compliance culture as we prepare to implement the Orbund/Campus Ivy System Software; the staff that has already been trained will be the staff involved in the use of the new software.

In addition, with the new system, the teachers are able to maintain correct attendance information. Therefore, ITEC is now monitoring properly all students enrolled and, it is maintaining exact and precise records of enrollment.

This is all part of the action plan that ITEC has developed to correct deficiencies in order to avoid recurrence of the identified findings. This action plan includes the following specific, measurable, attainable objectives:

- Continued training
- Continued guidance
- Improved Student Information System
- Revised policies and procedures
- Improved communication of policies and procedures as well as between key offices (including but not limited to Registrar and Financial Aid)
- Internal file auditing

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

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

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

Finding Number: 2019-011

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

Grant Award Numbers: P063P164014 (7/1/2016 - 6/30/2017), P063P174014 (7/1/2017 - 6/30/2018),
P063P184014 (7/1/2018 - 6/30/2019)

Category: Internal Control / Compliance

Compliance Requirement: Special Test and Provisions - Return of Title IV Funds

Condition:

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

- For ten (10) students, PRDE did not provide evidence as to the return of Title IV funds calculation, neither evidence that return was made within the required timeframe.

A similar finding was reported last year as item 2018-017.

Criteria:

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

34 CFR Section 668.173(b) states that an institution returns unearned title IV, HEA program funds timely if— (1) The institution deposits or transfers the funds into the bank account it maintains under §668.163 no later than 45 days after the date it determines that the student withdrew; (2) The institution initiates an electronic funds transfer (EFT) no later than 45 days after the date it determines that the student withdrew; (3) The institution initiates an electronic transaction, no later than 45 days after the date it determines that the student withdrew, that informs a FFEL lender to adjust the borrower's loan account for the amount returned; or (4) The institution issues a check no later than 45 days after the date it determines that the student withdrew.

Cause:

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

Effects:

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

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

Schedule of Findings and Questioned Costs Year Ended June 30, 2019

Questioned Costs:

Could not be determined.

Recommendation:

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

Management response:

DEPR recognizes the importance of maintaining and securing the information of all our students. Unfortunately, during the 2017-18 school year, Puerto Rico was shot down by one of the most fateful natural phenomena in history. Hurricanes Irma and María brought in their wake countless problems, including the loss of information that was stored in many of our campuses, regional and central offices. Following that event, in January 2020 an earthquake of 6.4 hit the southern part of the island, leaving the Ponce campus buildings in a very deteriorated state. Personnel from the campus had no or very limited access to students files.

As a way to secure and maintain the information of all our students, the ITEC has entered into a purchase agreement with a renowned software development company which specializes in student information systems to include academics, financial aid and accounting. The ITEC has programmed that for the 2020-2021 Academic Year, the new Student Information System (SIS) will allow each campus to identify those students who withdrew, dropped-out, or failed to attend to the institution and complete the calculation of the return of Title IV funds. This is feasible with the new system, because it allows teachers to maintain a correct attendance information. Therefore, ITEC is now monitoring properly all students enrolled and, it is maintaining exact and precise records of enrollment.

Additional internal control strategies have been implemented at the Central Office to have double validation, one-on-one analysis, validation of information from one system before it enters the other systems (transfer of information between student information system to accounting system) and the unprecedented establishment of the "Financial Aid Unit" at the Central Office, which was carefully drafted and developed with written guidelines and procedures as an internal control measure, developing the compliance culture, as we prepare to implement the Orbund/Campus Ivy System Software; the staff that has already been trained will be the staff involved in the use of the new software.

This is all part of the action plan that ITEC has developed to correct deficiencies in order to avoid recurrence of the identified findings. This action plan includes the following specific, measurable, attainable objectives:

- Continued training
- Continued guidance
- Improved Student Information System
- Revised policies and procedures
- Improved communication of policies and procedures as well as between key offices (including but not limited to Registrar and Financial Aid)
- Internal file auditing

Moreover, as an additional internal control measure, PRDE has developed a collaboration between the Finance Office (responsible for the final return of money to the federal government through systems enabled for this purpose) and the SFA Office, thru the implementation of a form that will document the process of cancellation of student checks to which for any applicable reason an adjustment or full return of funds is needed. The Finance Division will compete the return of funds on a monthly basis, according to the information that has been provided by the program. PRDE expects to implement this measure immediately to prevent the recurrence of this finding.

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

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

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

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

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

Finding Number: 2019-012

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

Grant Award Numbers: P033A174591 (7/1/2017 - 6/30/2018), P063P174014 (7/1/2017 - 6/30/2018),
P007A184591 (7/1/2018 - 6/30/2019), P033A184591 (7/1/2019 - 6/30/2019),
P063P184014 (7/1/2018 - 6/30/2019)

Category: Internal Control / Compliance

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

Condition:

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

- For thirteen (13) students, auditors noted that eighteen (18) Pell payments amounting to \$32,632 were paid after 14 days of the occurrence of the credit balance on the student account.
- For seventeen (17) participants, auditors noted that twenty-five (25) FSEOG payments amounting to \$1,978 were paid after 14 days of the occurrence of the credit balance on the student account.
- For thirteen (13) participants, auditors noted that twenty-four (24) FWS payments amounting to \$6,447 were compensated in a period that exceeded one month.

A similar finding was reported last year as item 2018-018.

Criteria:

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

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

Cause:

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

Effects:

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

Questioned Costs:

Could not be determined.

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

Schedule of Findings and Questioned Costs Year Ended June 30, 2019

Recommendation:

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

Management response:

ITEC has entered into a purchase agreement with a renowned software development company which specializes in student information systems to include academics, financial aid and accounting, which will finally provide us the interface with ITEC's ORACLE and PeopleSoft accounting systems. The ITEC has programmed that for the 2020-2021 Academic Year, the new Student Information System (SIS) will allow each campus to register the payroll directly in the system and on a periodic basis. Therefore, FWS payments will be disbursed within a period of less than one month, once the student has completed its biweekly work schedule and its direct supervisor approves the payroll.

Regarding the Pell and FSEOG payments that were paid after 14 days of the occurrence of the credit balance on the student account, the ITEC has now register 100% of students bank accounts. This allows the ITEC to process all of its students aids through an ACH payment, reducing the days drastically to 2 or 3 days of the occurrence of the credit balance on the student account.

With the implementation of the Campus IVY Core – Software License for Financial Aid Automation, in combination with the internal procedures that are being established, the ITEC will start the corrective actions process that will solve the identified findings.

Additional internal control strategies have been implemented at the Central Office to have double validation, one-on-one analysis, validation of information from one system before it enters the other systems (transfer of information between student information system to accounting system) and the unprecedented establishment of the "Financial Aid Unit" at the Central Office, which was carefully drafted and developed with written guidelines and procedures as an internal control measure, developing the compliance culture, as we prepare to implement the Orbund/Campus Ivy System Software; the staff that has already been trained will be the staff involved in the use of the new software.

In addition, with the new system, the teachers are able to maintain correct attendance information. Therefore, ITEC is now monitoring properly all students enrolled and, it is maintaining exact and precise records of enrollment.

This is all part of the action plan that ITEC has developed to correct deficiencies in order to avoid recurrence of the identified findings. This action plan includes the following specific, measurable, attainable objectives:

- Continued training
- Continued guidance
- Improved Student Information System
- Revised policies and procedures
- Improved communication of policies and procedures as well as between key offices (including but not limited to Registrar and Financial Aid)
- Internal file auditing

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

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

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

Finding Number: 2019-013

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

Grant Award Numbers: P007A174591 (7/1/2017 - 6/30/2018), P033A174591 (7/1/2017 - 6/30/2018),
P063P174014 (7/1/2017 - 6/30/2018), P007A184591 (7/1/2018 - 6/30/2019),
P033A184591 (7/1/2018 - 6/30/2019), P063P184014 (7/1/2018 - 6/30/2019)

Category: Internal Control

Compliance Requirement: Eligibility

Condition:

From a sample of sixty (60) students who received Title IV funds during the period under audit, auditors noted that in seventeen (17) instances, the need analysis worksheet ("Hoja de Trabajo para la determinación de necesidad") did not account for all the financial assistance awarded during the period under audit in order to determine that the financial assistance does not exceed the student's financial need. However, during our alternate audit procedures performed with which all the financial aid granted to these students were considered, in none instances the total Title IV Funds awarded exceeded their financial need.

A similar finding was reported last year as item 2018-019.

Criteria:

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

Cause:

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

Effects:

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

Questioned Costs:

Could not be determined.

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

Schedule of Findings and Questioned Costs Year Ended June 30, 2019

Recommendation:

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

Management response:

ITEC has entered into a purchase agreement with a renowned software development company which specializes in student information systems to include academics, financial aid and accounting, which will finally provide us the interface with ITEC's ORACLE and PeopleSoft accounting systems. The ITEC has programmed that for the 2020-2021 Academic Year the new Student Information System (SIS) will allow the program to automatically register all the student aids that student is eligible to receive in that period.

With the implementation of the Campus IVY Core – Software License for Financial Aid Automation, in combination with the internal procedures that are being established, the ITEC will start the corrective actions process that will solve the identified findings.

Additional internal control strategies have been implemented at the Central Office to have double validation, one-on-one analysis, validation of information from one system before it enters the other systems (transfer of information between student information system to accounting system) and the unprecedented establishment of the "Financial Aid Unit" at the Central Office, which was carefully drafted and developed with written guidelines and procedures as an internal control measure, developing the compliance culture, as we prepare to implement the Orbund/Campus Ivy System Software; the staff that has already been trained will be the staff involved in the use of the new software.

In addition, with the new system, the teachers are able to maintain correct attendance information. Therefore, ITEC is now monitoring properly all students enrolled and, it is maintaining exact and precise records of enrollment.

This is all part of the action plan that ITEC has developed to correct deficiencies in order to avoid recurrence of the identified findings. This action plan includes the following specific, measurable, attainable objectives:

- Continued training
- Continued guidance
- Improved Student Information System
- Revised policies and procedures
- Improved communication of policies and procedures as well as between key offices (including but not limited to Registrar and Financial Aid)
- Internal file auditing

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

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

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

Finding Number: 2019-014

Federal Programs: CFDA No. 97.036; Disaster Grants – Public Assistance

Grant Award Numbers: PR-4339-PW-01039(1250) (9/20/2017 - 5/30/2019)

Category: Internal Control / Compliance

Compliance Requirement: Period of Performance

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.

Criteria:

As stated in 2 CFR section 200.309 non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance and any costs incurred before the Federal awarding agency or passthrough entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity.

Per sub-award agreement, period of performance is stated from September 27, 2017 to March 31, 2019. Agreement also states that 1) all projects shall be completed within such period and all reimbursement requests shall be submitted to the sub-grantor (COR3) within 60 days of the end of the period and 2) Also, as stated in the Public Assistance Program and Policy Guide (PAPPG) all obligations must be liquidated within 90 days of the end of the award period of performance.

Cause:

Management failed to monitor compliance with stated period of performance established in the terms of the Program Worksheet ("PW").

Effects:

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

Questioned Costs:

\$29,482

Recommendation:

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

Management response:

The Department recognizes the importance of liquidating funds within the period established for each of the federal awards.

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

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

The reason for this was due to the circumstances caused by the atmospheric events of Hurricanes Irma and María, along with the severe fiscal, economic and liquidity crisis on the Island, leading the PRDE to experience a delay in recovery efforts, including the FEMA funds authorized for the PRDE.

Throughout the implementation of this federal program, the federal government has continued to work closely with PRDE to complete all approved projects. Furthermore, during the period of time that the projects were carried out, the federal agency has been very reasonable and understanding of the circumstances that directly affect the recuperation work being completed by PRDE. Accordingly, the liquidation of the tested disbursement was possible because FEMA kept the funds available for the PRDE and furtherly proceeded with the federal reimbursement.

Contact persons: Amarillys Silver Rodríguez, Undersecretary of Administration

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

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

Finding Number: 2019-015

Federal Programs: CFDA No. 84.938C; Temporary Emergency Impact Aid for Displaced Students

Grant Award Numbers: S938C180021 (11/7/2018 – 12/31/2018)

Category: Internal Control / Compliance

Compliance Requirement: Special Tests – Prohibition on Using Funds for Section 8003 Impact Aid Students

Condition:

During our test for internal controls and compliance procedures with Prohibition on Using Funds for Section 8003 Impact Aid Students special test requirement, we selected sixty (60) students identified as displaced to compare supporting documentation for the Section 8003 Impact Aid application with the supporting documentation for the displaced students covered under Emergency Impact Aid program and ascertain that students are not included under both programs.

PRDE did not provide supporting documentation for those students selected and we could not ascertain that students are not included under both programs.

Criteria:

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

Section 107 (i) of the HERA act established that in calculating funding under section 8003 of the Elementary and Secondary Education Act of 1965 for an eligible local educational agency that receives an emergency impact aid payment under this section, the Secretary of Education shall not count displaced students served by such agency for whom an emergency impact aid payment is received under this section.

Cause:

Management failed to monitor compliance with stated requirements that cannot include displaced students who generate Emergency Impact Aid payments in its annual Section 8003 Impact Aid application established in the Hurricane Education Recovery Act.

Effects:

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

Questioned Costs:

Could not be determined.

Recommendation:

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

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

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

Management response:

According to the external auditor's petition, PRDE has verified the sample of the students that participated from the Emergency Impact Aid (selected by the external auditors) and have found that some students were included in both, the Emergency Impact Aid population used to apply for this grant and also in the Basic Impact Aid 2018 Census, as provided by the program.

PRDE submitted the Basic Impact Aid Census in January and September 2018 (taking into consideration the amended census), and the Emergency Impact Aid application with eligible participants between June and September 2018 (taking into consideration the amended applications). Later, in November 2018, PRDE received the grant award notification for the Emergency Impact Aid for Displaced Students.

With the existing timeline in mind, let's review the statutory requirement in the special funding rule which is the following:

Special Funding Rule. In calculating funding under section 7003 of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 7703) for an eligible local educational agency that receives an emergency impact aid payment under this section, the Secretary of Education shall not count displaced students served by such agency for whom an emergency impact aid payment is received under this section, nor shall such students be counted for the purpose of calculating the total number of children in average daily attendance at the schools served by such agency as provided in section 7003(b)(3)(B)(i) of such Act (20 U.S.C. 7703(b)(3)(B)(i)).

Accordingly, at the time of both submissions, PRDE had not yet received any Emergency Impact Aid funding/payment, nor was aware if the USDE was going to authorize the entirety of the funds petitioned through any of the Impact Aid programs. Based on this information, we conclude that PRDE complied with the requirement established in section 7003, since no payment was even received in order to be able to distinguish the students to be included in the applications at the time that the applications were submitted.

Contact persons: Dr. Francisco J. Martinez Oronoz, Auxiliary Secretary of Federal Affairs
 Dr. Reinaldo Del Valle Cruz, Auxiliary Secretary of the Planning Office
 Dr. Lydiana I. López, Data Management and Quality Unit Director

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

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

Finding Number: 2019-016

Federal Programs: CFDA No. 84.938C; Temporary Emergency Impact Aid for Displaced Students

Grant Award Numbers: S938C180021 (11/7/2018 – 12/31/2018)

Category: Internal Control / Compliance

Compliance Requirement: Special Tests – Documentation of Enrollment Status

Condition:

During our test for compliance procedures with Documentation of Enrollment Status, we selected 60 students identified as displaced to review how the school compiles the numbers of displaced students and categories reported in the quarterly reports to the USDE and determine that records support that they were displaced students, attended on the applicable count date, and were correctly categorized. The displaced students and categorized were compiled by enrollment data maintained by the Planning Secretariat of PRDE. Records that supports enrollment status were official transcripts, student's last individualized education program and any other documentation necessary to support categories.

Specific instances identified during our review for documentation of enrollment status were as follows:

- For six (6) of the sixty (60) students examined, the documentation received did not support them as displaced students since movements in its enrollments were to the same school.
- For five (5) of the sixty (60) students examined, the documentation indicated that they were enrolled up to end of school year in two schools at the same time. One of the school enrollments disqualified the student as displaced.

In addition, we noticed that the documentation received supporting data used for quarterly reports and total reports has a total of \$5,093,875 in payments to students in which the original school and actual school are the same. Actual school is the school used by PRDE as benchmark to identify students as displaced.

Criteria:

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

Section 107 (d)(2) of the modified Hurricane Education Recovery Act (HERA) established that a State educational agency shall provide emergency impact aid payments under this section on a quarterly basis for the 2017-2018 school year by such dates as determined by the Secretary of Education. Such quarterly installment payments shall be based on the number of displaced students reported and in the amount determined based on its category.

Cause:

Management failed to monitor compliance with stated requirements that payments are accurate as established in Terms and Conditions of Emergency Impact Aid for Displaced Students Grants.

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

Schedule of Findings and Questioned Costs Year Ended June 30, 2019

Effects:

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

Questioned Costs:

\$5,093,875

Recommendation:

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

Management response:

During the course of our most recent single audit review, the external auditor identified that a number of students were mistakenly included in our initial count of “displaced students” in the case of public schools, within PRDE’s September 2018 submission. Specifically, the majority of these identified students reenrolled in the same school in which they were enrolled prior to the hurricanes in 2017. The other part of students were included in the report because they transferred to other schools, but when the data was entered into the system, the codes that are used in the Student Information System (SIS) to record for exiting/transfers were mistakenly used. PRDE did not intend to include these students in our initial count for displaced students. At the time of the report, PRDE was working under extraordinary circumstances, while also trying to recuperate from the disasters faced. However, the mistake was not identified until after the grant closed in March 2019.

Accordingly, when the preliminary finding was notified to the Single Audit Committee, PRDE proceeded to analyze the data and work with the issues identified by the auditors. We worked with the appropriate offices within the agency to review the issue and verify the proper count of displaced students for the 2017-2018 school year. We re-ran the data search using the appropriate terms and date ranges as identified in responses to A-2, B-5, and B-6 questions of the June 2018 version of the “Frequently Asked Questions (FAQs) for the Temporary Emergency Impact Aid for Displaced Students (Emergency Impact Aid) Program, CFDA Number: 84.938C.” Specifically, we reviewed the data for those students who, within the four quarters of the 2017-2018 school year:

- Resided in the area of a covered disaster or emergency on the date that is one week prior to the date that the major disaster or emergency was declared for the area; and
- As a result of the covered disaster or emergency, enrolled in an elementary school or secondary school other than the school that the student was enrolled in, or was eligible to be enrolled in, on the date that is one week prior to the date that the major disaster or emergency was declared for the area.

PRDE included the updated enrollment numbers meeting the definition of displaced students during the four quarters of the 2017-2018 school year and to be transparent and completely honest, as it is our duty, with the United States Department of Education (USDE), submitted a letter dated March 4, 2020, to the Disaster Recovery Unit (DRU), seeking to start discussions and solutions about this matter.

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

Schedule of Findings and Questioned Costs Year Ended June 30, 2019

Our analysis showed that there were in fact a number of students who should not have been included; however, we also identified that there were a significant number of students who should have been included that were not. Specifically, we recognized that our initial review of displaced students only considered those students who enrolled by February 8, 2018. This was not the correct date to use, especially considering that many public schools had not reopened by that date, and many students did not enroll until later in the academic year.

Taking into consideration the crisis that was occurring during that specific school year, PRDE faced many challenges. Accessing, exchanging, and reporting data was difficult after the emergency, particularly when critical infrastructure, such as electricity, internet, and cell phone service, was compromised. As guidelines in this field outline, we ask you to understand our situation at that historic moment.

There was a significant number of students who enrolled in a different school due to the devastation caused by the 2017 hurricanes, but after February 2018. Taking that into consideration, after validations and re-calculations subtracting the ineligible students from the period up to February 8 and adding the ones that should have been included within that period and after (up to April 1, 2018), the updated data showed that 2,050 of students, covering 2,476 instances, were not included in the original data set, even though they met the required criteria. Accordingly, the final data reflects that PRDE had a total of 13,649 displaced eligible students, that are 30,433 overall instances. Properly, PRDE was entitled to receive the amount of \$70,179,000 in the case of public schools, which is greater than the amount of \$69,043,750, which the Department authorized us (for public schools).

Our final analysis shows, even though the original student count included some students that indeed transferred out but did not meet all the parameters of the displaced student criteria, PRDE nonetheless underreported the total number of students and incidences in our original submission. As such, PRDE received less funding than it should have based on the actual number of displaced students during the 4 quarters of the 2017-18 school year. Moreover, we understand that the underreporting offsets the discrepancy of the initial count of over reported students. In addition, the PRDE – Planning Office and its Data Management and Quality Unit in conjunction with OSIATD and the OREs data stewards' team, has taken additional steps to ensure the consistency of the SIS data collection processes and procedures and has made proper adjustments for collecting detailed displaced students data for future incidents.

The USDE responded to our communication stating that: the information in the letter will be considered along with the other documentation PRDE provides for the upcoming monitoring of the program. Due to the COVID-19 pandemic, federal on-site visits and monitoring have been delayed until further notice. However, PRDE continues to be prepared for the coming monitoring processes and is in the best disposition to work along with the USDE with any outstanding matter they understand that still need attention.

Moreover, the DRU referred this issue to the Office of Inspector General (OIG) and a team from the OIG was putted together to audit PRDE. After the exchange of various emails, while we were lockdown and working from home, the lead of the OIG team approached PRDE to start the planning stages of the audit procedures they will be performing due to this finding.

Contact persons: Dr. Francisco J. Martínez Oronoz, Auxiliary Secretary of Federal Affairs
 Dr. Reinaldo Del Valle Cruz, Auxiliary Secretary of the Planning Office
 Dr. Lydiana I. López, Data Management and Quality Unit Director

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

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

Finding Number: 2019-017

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

Grant Award Numbers: S010A150052 (7/1/2015 – 9/30/2018), S010A160052 (7/1/2016 – 9/30/2018),
S010A170052 (7/1/2017 – 9/30/2019), S010A180052 (7/1/2018 – 9/30/2020)

Category: Internal Control / Compliance

Compliance Requirement: Special Test and Provisions – Assessment System Security

Condition:

During our test for compliance procedures with Assessment System Security, we selected sixty (60) schools to review the policies and procedures regarding the security tests for the assessment and review documentation of the implementation of those security measures. The implementation of those measures is examined with a security agreement signed by the school director and before and during assessments monitoring reviews conducted to ensure the security and confidentiality of its administration.

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

1. For two (2) of sixty (60) schools examined, no security agreements (“Certificación de Medidas de Seguridad”) were available for our review.
2. For two (2) of sixty (60) schools examined, no documentation of monitoring reviews conducted before assessment tests were available for our review.
3. For three (3) of sixty (60) schools examined, no documentation of monitoring reviews conducted during assessment tests were available for our review.

Criteria:

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

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

Cause:

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

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

Schedule of Findings and Questioned Costs Year Ended June 30, 2019

Effects:

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

Questioned Costs:

Could not be determined.

Recommendation:

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

Management response:

PRDE understands the instances identified by the auditors in this finding.

The Department recognizes the importance of ensuring the security and confidentiality of the administration of the annual academic assessment, knowing that the information that is gathered, allows PRDE continuous improvement and sustain excellence of the academic programs offered to our students.

In a way to ensure the non-recurrence of this finding, PRDE has strengthened its Assessment System Security process.

For the 2018-2019 academic year, PRDE standardized the process of completing electronically the security measures certification. This prevented that documentation became damaged or missing as had previously occurred with the passing of natural disasters. However, in a way to strengthen our electronic process, PRDE performed additional programming so that once the school director completes the security measures certification, a copy is automatically sent to central level. This way, PRDE maintains back-up of every certification that is completed.

For the instances related to the monitoring procedures, PRDE established as a standard procedure that the Educational Regional Offices (ORE's, for their Spanish acronym) are required to develop a work plan detailing how each ORE would be administering the tests in its schools. Originally, these work plans were limited to testing procedures, but now these must include in detail the calendar of pre- and during-test monitoring process that will be performed at each school.

Contact persons: Francisco Martínez Oronoz, Auxiliary Secretary of Federal Affairs
Daisy Hernández, Assessment Unit

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

Schedule of Findings and Questioned Costs Year Ended June 30, 2019

Finding Number: 2019-018

Federal Programs: CFDA No. 97.036; Disaster Grants - Public Assistance

Grant Award Numbers: PA-02-PR-4339-PW-01039 (9/20/2017 – 5/30/2019)

Category: Internal Control / Compliance

Compliance Requirement: Reporting

Condition:

From the sixteen (16) requests for reimbursements made during the period, auditors selected for review two (2) forms SF-270 - Requests for Advance or Reimbursements, however, we were unable to inspect such forms as management was unable to provide them.

Criteria:

2 CFR Section 200.327 states that unless otherwise approved by OMB, the Federal awarding agency may solicit only the standard, OMB-approved governmentwide data elements for collection of financial information. This information must be collected with the frequency required by the terms and conditions of the Federal award, but no less frequently than annually nor more frequently than quarterly except in unusual circumstances, for example where more frequent reporting is necessary for the effective monitoring of the Federal award or could significantly affect program outcomes, and preferably in coordination with performance reporting.

Cause:

Lack of channels of communications between PRDE (sub-recipient) and COR3 (sub-grantor).

Effects:

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

Questioned Costs:

None.

Recommendation:

We recommend PRDE's management to review and strengthen its communication channels with the sub-grantor to ensure that compliance with requirements are met.

Management response:

The Department recognizes the importance of maintaining records to show compliance with program requirements.

In a way to ensure the non-recurrence of this finding, PRDE will strengthen its recordkeeping processes to support the reimbursements made during the period, in this case the SF-270 - Requests for Advance or Reimbursements Forms.

Nevertheless, is important to note that such forms had to be completed and sent to the Federal Emergency

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

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

Management Agency (FEMA) since this is the only way the PRDE made requests for advance or reimbursements. Eventually, FEMA disbursed federal funds for both requests.

Contact persons: Amarillys Silver Rodríguez, Undersecretary of Administration

Puerto Rico Department of Education
An Executive Agency of the Commonwealth of Puerto Rico

Summary of Prior Year Findings
Year Ended June 30, 2019

| Finding Number | Finding (condition found) | CFDA | Questioned Cost | Status | Management Corrective Action Plan | Anticipated Completion Date | Responsible Officer | USDE determination of finding |
|----------------|---|--|-------------------------|-------------|---|-----------------------------|--|--|
| 2018-01 | Auditors obtained from Teachers Retirement Systems and Employees' Retirement Systems the required confirmation and identified that no payments were issued regarding employer's contributions during the year ended June 30, 2018. A portion of the \$10,191,509 included in other payments regarding Schoolwide, School Food Authority and Consolidated Funds, relates to federal programs. Questioned costs related to these federal programs included within this balance are not determinable. | 10.558; 10.559; 10.560; 84.002; 84.010; 84.027; 84.173; 84.048; 84.196; 84.367; 84.377 | \$498,117 | In progress | Payroll information recorded in the PRDE accounting system arises directly from the Puerto Rico Treasury Department (PRTD). The information is received in a database which is replicated in the PRDE accounting system. Subsequently, the information entered in the system is properly reconciled with the PRTD accounting system to validate the accuracy of the information. Transactions included above are currently being evaluated by the PRTD and PRDE, in order to determine if in effect part of these balances are questionable. Any adjustment resulting from this matter must be analyzed and approved by the PRTD, since that agency is ultimately responsible for these transactions. | March 30, 2020 | Rebeca I. Maldonado, Undersecretary of Administration | No USDE determination has been received regarding the 2018 Single Audit finding. |
| 2018-02 | As part of our audit procedures, we obtained an accounts receivable listing and identified duplicated payments issued during the year ended June 30, 2018. Accounts receivable arise from overpayments or merchandise returns to suppliers, improper salary payments, payments to employees without accumulated vacations or sick leave balances, and others. Accounts receivable are recorded in a subsidiary ledger when detected or identified. However, the expenditures in the related funds are reversed when amounts are actually collected. Accordingly, expenditures responded as federal financial assistance programs costs in the schedule of expenditures of federal awards include unallowable costs for those amounts that remain uncollected at the end of each year. | 45.310; 84.010; 84.027; 84.048; 84.367 | \$83,545 | In progress | PRDE has worked towards complying with this Federal requirement and has accomplished a lot through the recent years and continues to be engaged with the prioritization of resolving the issues noted within this finding. Due to the fact that approximately 98% of the outstanding balance of accounts receivable relates to improper payroll payments, PRDE continues to work on the project for the implementation of an automated process that will prevent improper salary payments, overpayments and/or payments to employees without accumulated vacations or sick leave balances, among others. PRDE's Human Resource Office developed and implemented a new policy of Time, Attendance and Tardiness, effective July 2019. That same month, during the Annual PRDE School Director's Convention, they coordinated and held an extensive training session about its applicability and severity to more than 900 school directors who will now be entrusted to transfer that knowledge among other employees of their respective schools. The implementation of the Time, Attendance and Tardiness policy considers six discountable codes, including a Non-Discoutable Time (TND) code that will be automatically activated if the employee does not fulfill his full work day. In addition, a blockage was integrated into the system so that when the PRDE grants one day, no employee can register its attendance, preventing an unauthorized absence record from being generated. Real-time payroll registration decreases the amount of improper payroll payments caused by accounts receivable balances every year. Integration testing was completed and phase one of implementation initiated in December 2019. The new real-time payroll registration impacted the trusted positions, payroll and human resources personnel first, and will continue with all Central Level employee by February 2020. Prospectively, all regional office will be integrated in the new system and finally all employees working at the school level. In relation to the timely collection of accounts receivable balances, Payroll and Finance units have begun working on revisions to existing procedures in order to: (a) promptly identify existing employees without accumulated vacation or sick leave balance; (b) calculate any overpayments; and (c) establish payment plans to collect balances owed through payroll deductions. | June 30, 2020 | Rebeca I. Maldonado, Undersecretary of Administration Evelyn Rodríguez Carde, Director of Finance Judit Parrilla Rivera, Accounts Receivable Supervisor | No USDE determination has been received regarding the 2018 Single Audit finding. |
| 2018-03 | While obtaining our understanding of the state's policies and procedures in place at PRDE's Central Office and public Schools in relation to property and equipment, we were informed that the required annual physical inventory has not been performed by the PRDE's Property and Equipment Division (the Property Division) during the last two years. In addition, we noted that property records do not include all elements required by the federal government, such as the percentage of federal participation in the cost of the property and the use and condition of the property. As a result of not performing physical inventory and reconciliation procedures, the following matters were identified. During our audit procedures we noted that the list of disbursements from the PRDE for the year ended June 30, 2018 and the PRDE property records did not agree to properly reflect the acquisition of all property purchased during the year. Accordingly, PRDE failed to maintain a complete and accurate property records. In 70 instances we noted that property records were not in accordance with the list of disbursements resulting in a difference of \$317,894. We visited each location identified on PRDE's property records for the items selected for inspection and noticed that in three (3) instances of sixty-two (62) items selected, the form Property-in-Use (Form SC-1211), used to document the receipt/acquisition of equipment, was not available by the asset custodian for examination at the asset location school, as established by the policy. Subsequent to our visit to each location, forms were provided by the PRDE's Property Division at the PRDE's central office for our examination. In eight (8) instances of one hundred and twenty-six (126) items, we noted that PRDE's property records were not updated to indicate the current custodian of the property. | 45.310; 84.048 | Could not be determined | Completed | PRDE's property management procedures have been redesigned to maximize the use of automated tools, resulting in a more efficient and effective process to be able to complete the agency's required annual inventory. PRDE has modules within its systems to ensure physical inventories are taken, as required by State/local and federal regulations. On October 30, 2019, the Property Division completed a physical inventory on all PRDE property. The process resulted in a complete database of the inventory, which is registered in PRDE's Asset Management (AM) Module. Currently, the Property Division is validating and completing the reconciliation of its inventory to record dispositions, changes in locations and ensure its custodians are accounted for, among other important information that must be well documented. In addition to performing and completing the annual physical inventory, new functionalities were implemented within the AM module in PRDE's financial system (SIFDE, per its acronym in Spanish) in order to improve the inventory registration process. Among the new functions that were implemented, the person in charge of requisitioning equipment and material, along with the person in charge of receiving them, will each be responsible for the inventory certification process. The AM module can also show if the asset was purchased with State, local, or federal funds. Additionally, the improved AM Module now creates the annual SC795 report, which is required by the Puerto Rico Treasury Department. All these new functionalities of the AM module, along with the procedures necessary to complete the inventory were discussed during trainings held in May 2019 for school and regional office personnel. The AM module manual was distributed during these trainings and discussed together with the inventory procedures that are to be performed by the locations and Property Division. The Property Division anticipates that training sessions will be held every time a new physical inventory is initiated. Trainings will ensure that updated procedures are distributed and that new personnel are aware of how the inventory process should be performed. On May 3, 2019, PRDE developed and distributed the notification procedure for damaged or stolen property and designating a property custodian as required by Law no. 96 of 1964, as amended. Accordingly, PRDE locations will coordinate with the Property Division for proper asset disposal. | October 30, 2019 | Rebeca I. Maldonado, Undersecretary of Administration Nilda Z. Morales Vázquez, Director of Asset Management and Property Division | No USDE determination has been received regarding the 2018 Single Audit finding. |
| 2018-04 | In testing compliance with the requirements related to the eligibility for individuals of this program, we selected a random sample of thirty-six (36) participants from the Child Count Report Raw Data for the school year 2016-2017, including participating students up to December 31, 2017, submitted during fiscal year 2017-2018 to the Federal agency and noted some exceptions. | 84.027; 84.173 | Could not be determined | Completed | In an April 10, 2019, communication sent to OSEP, PRDE maintained its position as noted in the Auditor's response that it did not concur with the auditor's response. PRDE reported that the program implemented efforts to provide "the best quality" and timely data to OSEP. Specifically, PRDE indicated that for the Child Count for the 2017-2018 academic year (FY 2018), the program analyzed every case in which the student's information, including name, date of birth, age, and any other information, was exactly the same and corroborated if it was a duplicated line.* PRDE also indicated that in a rare circumstance where a student's record was duplicated, it was deleted, and the Commonwealth is implementing processes to ensure such circumstances are reduced and data quality is improved. According to information provided in PDL July 26, 2018, USDE indicates that PRDE has improved its data quality and reporting, and that no additional corrective actions are required at this time. | July 26, 2019 | Eliezer Ramos Pares, Auxiliary Secretary for Special Education Daiber Carlión Muñoz, Compliance Director Irving Feliciano Puliza, Data Manager María del Carmen Cruz Delvia, Monitoring Unit Director | No USDE determination has been received regarding the 2018 Single Audit finding. |
| 2018-05 | In three (3) instances of four hundred and twenty-five (425) disbursements selected for testing, the federal funds deposited in PRDE's account were disbursed after the required time frame of three (3) business days of their availability. A similar finding was reported last year as finding 2017-012. In addition, while testing compliance and internal control over the cash management requirement for Student Financial Aid cluster, the auditors selected a sample of eight (8) draw downs out of thirty-four (34) draw requests during FY 2017-18 in the GS system and noted on ninety (90) payments out of 2,952 payments within the eight (8) draws selected, that these were disbursed after the required time frame of three (3) business days of their availability. | 45.310; 84.402; 84.007; 84.027; 84.048; 84.367; 84.033; 84.063 | None | Completed | PRDE disagrees with the auditors finding in part. PRDE has worked towards complying with the Federal requirement and has accomplished a lot through recent years. For all the instances that auditors identified funds were disbursed after the required time frame of three (3) business days of their availability, PRDE recognizes that even though on March 2017, PRDE developed a new process in its Accounting System (SIFDE, acronym in Spanish) to mostly automate the payment process, we were still in the process of full implementation of the corrective action plan to comply with the terms and conditions established in the Cash Management Improvement Act Agreement. The process consists on that twice a week, the Treasury Department enters in SIFDE the balance available for PRDE to issue payments. Authorized PRDE personnel then selects the payment vouchers that are required to be released and proceeds on processing the "unhold" vouchers. The payment cycle is processed and available for the Treasury Department approval. Once approved, PRDE proceeds with the check's submission to the Treasury Department for the corresponding check issuance. On the other hand, PRDE is in the process of converting all payments to its suppliers, whenever possible, to the ACH method. This method is a safer way to disburse payments directly to the bank accounts of the suppliers and also facilitates the process of maintaining an audit trail of each transaction. Near the date of these transactions noted by the auditors, the first disbursement tests were being carried out using the ACH method, however the SFA Cluster program had not yet modified its manual of procedures so, these transactions had to be reversed to their issuer then by check, in compliance with the program's processes. Because PRDE cannot make disbursements on a daily basis, and only on the day the Puerto Rico Treasury Department authorizes it, these transactions ended up in non-compliance with the 3-day term established by the USDE. For the instances where auditors identified that check clearance was several days after being issued, PRDE has demonstrated to track at least 99% of the funds disbursed, from issuance to clearance, for a period of at least three months, as stated by Section 7.4 of the Treasury State Agreement (TSA). Also, through PRDE's actual accounting system (SIFDE), the agency is able to meet with the requirements stated under Section 7.5 of the TSA. SIFDE provides PRDE the date the check was released for payment, date the check was debited from the State's account and the amount of the check. In compliance with the requirement to track 99% of the funds disbursed, the Finance Department has implemented a new tool to identify checks issued more than 7 days, but still not cashed or deposited by the supplier or vendor. The Finance has proceeded on establishing a mean of communication with the supplier or vendor to confirm receipt of payment for at least three months. In compliance with federal requirements, for programs on an advance method, PRDE demonstrated it has established procedures to minimize the time elapsed between the draw-down of federal funds, and the disbursement of check payments. PRDE continues to closely monitor all the payments issued and has constantly minimized the number of instances auditors find during their tests. | December 30, 2019 | Evelyn Rodríguez Carde, Director of Finance | No USDE determination has been received regarding the 2018 Single Audit finding. |
| 2018-06 | During our test of controls and compliance procedures for Eligibility for Area of Service Delivery, we visited five (5) Schoolwide schools to test eligibility of school attendance area. PRDE uses as poverty measure, socioeconomic data which is captured through SIE (Sistema Información Estudiantil) to make eligibility computations. After examination of the underlying source data during our testing procedures, we noticed various instances, in all five schools visited, where the data entered on SIE did not match the physical forms maintained at the schools' records, which were completed by parents or in-charges. Accordingly, we concluded that the data entered on SIE did not represent accurate and complete student information. Furthermore, this is a repeated finding, therefore, the grandfather rule could be incorrectly considered because of prior year differences on forms entered on SIE. Specific instances identified during our visits to the schools selected were as follows: 1. In four (4) of the five (5) schools visited, we noticed that total number of forms entered in SIE did not equal the total number of forms (Datos de unidad familiar) physically observed at schools. Also, from the five (5) schools we visited, we were able to physically examine 1,513 "Datos de unidad familiar" forms and noticed that a total of 205 or 14% were without the parent's /in charge signature. 2. In each of the five (5) schools visited, we randomly selected ten (10) forms "Datos de unidad familiar: Estudio Socio Económico Año 2016-2017" from each school considered for socioeconomic report to ensure that income on the form equals income entered on SIE. We found that from a total of fifty (50) forms examined and traced to SIE data, on seventeen (17) forms or 34% the income reported does not equal SIE data. Moreover, we found that eight (8) out of the fifty (50) or 16% forms examined, the number of family members included in the form were not equal to family members entered in SIE. Also, we found that in seven (7) forms of a total of 50 examined, we noticed that date of birth on student files does not equal SIE data. 3. In one (1) of the five (5) schools visited, we noticed that three (3) of the ten (10) students examined in the school no socioeconomic physical form was available to review. 4. In one (1) of the five schools visited, the forms used for the socioeconomic study were not the one that corresponds to the year 2016-2017. The version used did not required the school director signature. 5. Two of 1,513 physical forms of "Datos de Unidad Familiar" where archived at the student file. | 84.010 | Could not be determined | Completed | During February 2018, PRDE implemented an electronic process for the pre-enrollment of the 2018-2019 academic year. The electronic pre-enrollment process facilitated the flow of information for real-time decision making, streamlining the internal processes of the Department. However, in its first year of implementation, the electronic pre-enrollment process did not substitute the paperwork forms where required to complete the enrollment of its child, including the socioeconomic study data form. During that period, PRDE made enhancements to the electronic enrollment system and included the socioeconomic study data form in order for parents to register their child's personal information, family's income and composition. On November 2019, PRDE encouraged parents to initiate the enrollment process for the 2020-2021 Academic Year in the now enhanced online enrollment system. The enrollment period is still open and families are being able to use a computer at school to perform the enrollment process. However, paper forms will be available only for parents without computer or internet access, and School Directors will be responsible to submit any student information into the system. PRDE expects a reduction in this type of observation during next fiscal year. | November 18, 2019 | Francisco Martínez Orozco, Interim Auxiliary Secretary for Federal Affairs Ileana Cortés Burgos, Title I Program Coordinator | No USDE determination has been received regarding the 2018 Single Audit finding. |

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|---------|---|-----------------------|-------------------------|-------------|---|-------------------|--|--|
| 2018-07 | In testing compliance with the requirements related to earmarking, we recalculated the proportion of compensation of students employed in community service activities to total Federal Work Study (FWS) allocations for the award year 2017-18 and amounted to \$11,137. The minimum amount (\$17,500) was not met by \$6,363. | 84.007,84.033, 84.063 | could not be determined | In progress | PRDE acknowledge the importance of complying with the earmarking requirement and has historically complied with this requirement. However, since this finding corresponds to the time period in which the island was severely damaged by Hurricanes Irma and Maria on September of 2017, the PRDE could not comply with this requirement. The hurricanes impact caused catastrophic damages leaving the institutions' academic and administrative buildings closed for an extended period of time. The administrative offices were relocated to an alternate site to start with the recovery efforts in order to bring the institutions to a suitable condition to continue the academic courses. Therefore, PRDE's corrective action plan was significantly delayed. Since PRDE did not use all of the funds initially allocated due to the situation mentioned above, PRDE performed the calculation using the total amount actually expended in the FWS program. Based on the FISAP report submitted by the PRDE to the USDE the minimum amount for Community Services Activities should be \$12,603 (which is 7% of the amount actually expended in the FWS program reported on the FISAP). The total community service earned compensation in Community Services Activities as stated in Section G of the 2017-18 FISAP was \$14,850. This amount exceeds the minimum amount of \$12,603, resulting in PRDE's compliance with the earmarking requirement. Additionally, PRDE will continue to schedule trainings for all Financial Aid Personnel regarding FWS regulations and monitoring the Financial Aid Office operations and personnel, who are responsible for the administration of the FWS program. PRDE is committed to completing all corrective actions within a negotiated timeline in order to fully comply with all applicable federal requirements. | June 30, 2020 | Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education Kelvin J. Pagán, Technical Education Program Director | No USDE determination has been received regarding the 2018 Single Audit finding. |
| 2018-08 | In testing compliance and internal control over Level of Effort - Maintenance of Effort requirement, we were provided with the entity's calculations corresponding to the fiscal year under audit. A State must maintain its level of fiscal effort on either an aggregate or per-student basis for prior year with respect to the second preceding year. We noted that the State did not meet the Level of Effort - Maintenance-of-Effort requirement, under either of the two available computation methods for compliance as required under the Section 311(b)(1)(A) of Perkins V (20 USC 2391(b)(1)(A)). For FY 2015-2016, State funds expenditures on PRDE accounting records for Career and Technical Education program amounted to \$74,793,937 and a certified enrollment of 37,180 students. The dollar amount assigned per student was of \$2,011.67. For FY 2016-2017, State funds expenditures on PRDE accounting records for Career and Technical Education program amounted to \$70,797,819 and a certified enrollment of 37,180 students. The dollar amount assigned per student was of \$1,904.18. Aggregated efforts decreased from FY2015-16 to FY2016-17 in the amount of \$3,996,118 or -5.34%. The State's per student effort decreased by 9,107.48 or -5.34%. The student enrollment had no change, for a total of 37,180 both fiscal years, while the States aggregate expenditures decreased by \$3,996.18. Therefore, per-student effort was reduced. Under the per-student basis computation, the States' total aggregate expenditures amounted to \$70,797,819 and should have amounted to \$74,793,937. The rate per student amounted to \$1,904 and should have been \$2,012. The State's aggregate expenditures should amount to at least \$74,793,937, matching total States expenditures for the second preceding year (Fiscal Year 2015-16), in order to comply with Level of Effort - Maintenance-of-Effort under the aggregate basis of expenditures computation. | 84.048 | Could not be determined | In progress | PRDE closely monitors compliance with the Maintenance of Effort (MOE) requirement. While PRDE has historically Complied with this provision, in recent years, PRDE has experienced fluctuation in both federal and state funding for career and technical education. In addition, the Government of the Commonwealth of Puerto Rico has experienced challenging financial circumstances resulting in a decrease in the state budget for education for the past few years. Further, due to the current financial circumstances in Puerto Rico and the Financial Oversight and Management Board's ultimate control over State funding, and most recently the adverse impacts of Hurricanes Irma and Maria, Puerto Rico can no longer rely on the same sources to calculate MOE and needs to revise its methodology. The U.S. Department of Education (ED or the Department) has been cognizant of PRDE's need to revise its MOE methodology since the 2015 single audit process. Specifically, on November 9, 2016 PRDE received a Program Determination Letter (PDL) for the audit period July 1, 2014, through 2015. Finding 2016-011 noted that PRDE did not meet the MOE requirement under either of the two available computation methods. The Department sustained the auditors finding 2015-011 and requested: (1) revised policies and procedures to calculate MOE, and (2) spreadsheets showing actual expenditures for CTE for the two years in question. As of this date PRDE has not received any additional communication regarding this matter. However, PRDE received a technical assistance visit from OCTAE during May 15-16, 2019, related to the implementation of the new Perkins V Act. During this visit, USDE requested additional information regarding the MOE state expenditures for FY's 2016-2017 and 2017-2018. USDE also indicated that it will provide this additional information to the Audit Division to finally conclude the resolution of these findings. | December 31, 2019 | Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education | No USDE determination has been received regarding the 2018 Single Audit finding. |
| 2018-09 | While performing our audit procedures over reporting compliance requirement, we noticed that the submission of the second quarter of the Quarterly Grant Accrual Reports and the State Program Report, required by the Institute of Museum and Library Services (IMLS), was submitted late by the State Library Program. The IMLS grant calendar cycle included at the Grant Award Guidance package indicates that the due date for the second quarter of the Quarterly Grant Accrual Report was April 5, 2018 and the State Library Program submitted the report on April 6, 2018. Otherwise, the IMLS grant calendar cycle indicates that the due date for the State Program Report was December 29, 2017. As a result of an extension requested and approved, the new due date for the State program Report was December 29, 2018 and the State Library Program submitted the report on December 30, 2018. | 45.31 | None | Completed | As a precautionary measure given the distressing situation Puerto Rico faced in the aftermath of Hurricanes Irma and Maria, DEPR proactively requested a highly comprehensive waiver for all reports that this program required for FY 17-18. This communication was made available to the auditors at the same time Quarterly Accrual reports and SPR report were shared. Moreover, at the eventuality of the auditors' findings on the timeliness of our reports, PRDE entered into communication with the federal office of the IMLS program, requesting clarification on the applicability of the waiver, to which they replied that PRDE has been very communicative in recent years around the quarterly accrual reports, and IMLS has no concerns about the timeliness factors cited during this period. PRDE wants to emphasize that the auditor's findings are based on a one-day late submission of each report. For the 2017 SPR report, which was originally covered by the waiver we mentioned above, the extension granted was December 29, 2018. However, this calendar day is a Saturday, PRDE made an outstanding effort to have the personnel available to submit this report on a timely basis. PRDE understands that based on this information, this finding should not be sustained. | December 30, 2018 | Axamar González Martínez, Auxiliary Secretary for Academic Affairs Mary J. Have Bermudez, State Library Program Interim Coordinator | No USDE determination has been received regarding the 2018 Single Audit finding. |
| 2018-10 | In testing compliance and internal controls over Reporting - Special Report - the auditors obtained copy of the Fiscal Operations Report and Application to Participate (hereafter, FISAP) for the Award Year 17-18, and traced material line items to PRDE's disbursement records finding exceptions. | 84.007,84.033, 84.063 | Could not be determined | In progress | PRDE accepts this finding and will continue making efforts to prevent the recurrence of the above condition and as a corrective action plan PRDE will amend the FISAP for the fiscal year 2017-2018. In addition, PRDE has established the following procedures: 1. Continuous training of all Financial Aid Office personnel regarding FISAP reporting and federal disbursement regulations, and 2. Monitoring the Financial Aid Office personnel, who are responsible for gathering the FISAP report data, to ascertain the appropriate procedures are being followed and that the required data is accurate and consistent with PRDE's disbursement records. Also, as part of the corrective action plan, PRDE will coordinate a technical assistance visit from the US Department of Education to provide a seminar to all the institutions' personnel involved in the administration of Title IV funds. This seminar will help PRDE to prevent the recurrence of the above condition in the future. In addition, PRDE is in the process of acquiring a completely new Student Information System with an integrated Financial Aid module. During the Fiscal Year 2016-2017, PRDE implemented a Student Information System (SIS) within the institutions and training was provided to all the personnel including those working with the SFA Program. The SIS implementation was supposed to improve the Title IV funds management and financial procedures. However, the results obtained did not meet PRDE's expectations. The new system will be fully implemented during the fiscal year 2019-2020. USDE recently accepted the PRDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRDE partially disagrees. We expect that this process will allow PRDE to identify additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day-to-day operations to provide the most high-quality service and education to our students. On August 20, 2019, the appeal was accepted by the USDE with certain instructions and requirements on January 24, 2020. ITEC received approval for additional time to complete the file review for findings 4 and 5. This timeline extension will allow USDE and the Federal Student Aid to continue with the review process and define the settlement agreement. | June 30, 2020 | Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education Kelvin J. Pagán, Technical Education Program Director | No USDE determination has been received regarding the 2018 Single Audit finding. |
| 2018-11 | The PRDE did not submit the Enrollment Reporting Roster File updated to the National Student Loan Data System (NSLDS) and other information as required by federal regulations during fiscal year 2017-2018. | 84.007,84.033, 84.063 | Could not be determined | In progress | PRDE was not able to submit the Enrollment Reporting Roster File to the NSLDS during this fiscal year, therefore, concurs with this finding. Due to the turnover of staff and recognizing the importance of technical knowledge that our personnel must receive, PRDE has requested to the US Department of Education a seminar which has already been coordinated to take place between September and November 2019. This seminar will be provided to all the institutions' personnel involved in the administration of Title IV funds, and the NSLDS Enrollment Reporting will be one of the topics that will be covered. Also, PRDE is establishing standard monitoring processes to the Financial Aid Office personnel, who are responsible for the Enrollment Reporting, to ascertain the appropriate procedures are being followed and the reports are accurate and consistent with PRDE records reported to the National Student Loan Data System (NSLDS). In addition, PRDE is in the process of acquiring a completely new Student Information System with an integrated Financial Aid module. During the Fiscal Year 2016-2017, PRDE implemented a Student Information System (SIS) within the institutions and training was provided to all the personnel including those working with the SFA Program. The SIS implementation was supposed to improve the Title IV funds management and financial procedures, however, the results obtained did not meet PRDE's expectations. The new system will be fully implemented during the fiscal year 2019-2020. | June 30, 2020 | Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education Kelvin J. Pagán, Technical Education Program Director | No USDE determination has been received regarding the 2018 Single Audit finding. |
| 2018-12 | In testing compliance and internal controls over Level of Efforts - Maintenance of Efforts the auditors noted that management was not able to provide documentation supporting its calculation. | 84.367,84.010, 84.287 | Could not be determined | Completed | During the course of the audit procedures performed by the external auditors, they requested all the necessary documentation to test the compliance of the Level of Effort of the ESEA programs, however, no documentation was requested to show that the agency's internal controls were properly implemented to ensure that every effort was made to meet the calculation requirements of this computation, to which this finding is related. On August 2010, PRDE received a memo from the USDE with the instructions related on how PRDE should perform the processes of calculation of LOE. Specifically, further communications were established in order to gather more information and by email communications that were also supplied to the auditors, they stated that "The attached letter from 2010 describes how the U.S. Department of Education (USDE) annually determines whether States maintained fiscal effort in the preceding fiscal year under section 1125A(e) of the ESEA (...). As a unitary system, this also means that Puerto Rico has met the LEA MOE requirement in section 8521 of the ESEA. Therefore, due to Puerto Rico's unitary status, it is not necessary for Puerto Rico independently to determine whether it maintained effort under sections 1125A(e) or 8521 because of the ESEA because ED performs this function when it annually checks whether Puerto Rico (and other States) met the State MOE requirement in section 1125A(e)." On a further communication received in November 13, 2019, USDE send PRDE a clarification of the calculation of maintenance of effort (MOE) for local educational agencies (LEAs). In that letter, USDE confirms once again due to PRDE's unitary status, it is not necessary for PRDE to independently determine whether it maintained effort under ESEA sections 1125A(e) or 8521 because, with respect to PRDE, the Department performs this function when it annually checks whether PRDE (and every State) met the State MOE requirement in ESEA section 1125A(e). Regarding the PRDE internal controls that are in place, on an annual basis, the PRDE Budget Office requests each of PRDE's Program/Office/Division its estimated and necessary state budget for the next fiscal year. Each Program/Office/Division completes an analysis of its needs and requests the state budget necessary to ensure its operations, continuity of service and overall compliance with the applicable state and federal requirements. The approval of this budget is subject to the availability of funds allocated to the PRDE by the Central Government. Each program conducts its due diligence to ensure compliance with applicable federal laws and to ensure continuity and implementation of federal programs assigned to PRDE, regardless of the additional compliance that the USDE performs by calculating the LOE by themselves. | November 30, 2018 | Francisco Martínez Oronoz, Interim Auxiliary Secretary for Federal Affairs | No USDE determination has been received regarding the 2018 Single Audit finding. |
| 2018-13 | In one (1) instance of four hundred and twenty-five (425) disbursements examined, no evidence was available to support that the payment was properly documented. | 10.559 | None | Completed | PRDE acknowledge the importance of keeping the necessary evidence of payments in compliance with the federal regulations. Although PRDE's management makes every effort to safeguard the information of the participants of each program, the onslaught of Hurricanes Irma and Maria severely impacted the agency's recordkeeping processes. The file related to this finding was in the agency's inactive files archive. When requested by the auditors for purposes of the test, the program identified that it corresponded to be among the files that were severely damaged by the impact of Hurricanes Irma and Maria. Despite not being able to provide the particular year evidence that was requested by the auditors, this supplier remains active and in compliance with the program and subsequent years files were available for the auditors. PRDE is evaluating how records could be protected in order to avoid this kind of situation in the future. | June 30, 2019 | Louides N. García Santiago, Interim Director of School Lunch Program | No USDE determination has been received regarding the 2018 Single Audit finding. |

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| 2018-14 | During our audit procedures, we noted that PRDE does not have an adequate recordkeeping system that allows an easy audit trail of all transactions involving the processing of financial aid. In testing compliance and internal control over the cash management requirement for SFA cluster, the auditors selected a sample of eight (8) draw-downs out of 34 draw requests during FY 2017-18 in the GS system and noted that on 19 payments out of 2,952 payments within our sample, that payment information (check number and check date) were not present in the records provided, as stated below. | 84.007.84.033, 84.063 | None | In progress | <p>The PRDE recognizes the importance of taking steps to improve procedures. As part of the ongoing monitoring processes that have been developed to assess the performance of the Student Information System (SIS), SFA program staff identified that the system was digitizing a series of payments to students. Immediately after this situation was identified, all the digitized payments were cancelled to ensure the proper use of the funds and prevent the payment process from being done incorrectly. This situation is one of the examples by which, after thoroughly evaluating the performance of the SIS system, PRDE in accordance with USDE advice, decided to start the process of substituting the current system for a completely new system that will address this and other situations found during implementation phase of the SIS. The new system is expected to be fully implemented during the fiscal year 2019-2020.</p> <p>USDE recently accepted the PRDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRDE partially disagrees. We expect that this process will allow PRDE to provide additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day-to-day operations to provide the most high-quality service and education to our students.</p> <p>On January 24, 2020, ITEC received approval for additional time to complete the file review for findings 4 and 5. This timeline extension will allow USDE and the Federal Student Aid to continue with the review process and define the settlement agreement.</p> | June 30, 2020 | Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education Kelvin J. Pagán, Technical Education Program Director | No USDE determination has been received regarding the 2018 Single Audit finding. |
| 2018-15 | During our audit procedures, we noted that PRDE does not have an adequate recordkeeping system that allows an easy audit trail of all transactions involving the processing of financial aid. In testing compliance and internal control over the cash management requirement for SFA cluster, the auditors selected a sample of eight (8) draw-downs out of 34 draw requests during FY 2017-18 in the GS system and noted that on 19 payments out of 2,952 payments within our sample, that payment information (check number and check date) were not present in the records provided, as stated below. | All Major Programs | Could not be determined | In progress | <p>PRDE has in place a procurement process that contemplates exceptions to the regular competitive process. According to our "Guía para la selección de servicios profesionales que son sufragados con fondos federales", PRDE may initiate noncompetitive procurement process when acquiring legal or accounting services, due to the nature of such services.</p> <p>As for legal services, these are required to comply with ethical canons by establishing a client-lawyer relationship that grants particular privileges to the lawyers, based on the reliability of its client that his lawyer will seek the best wellbeing of its client under most kind of circumstances. This type of relationship can't be identified during a regular competitive process, therefore, PRDE considers it as one of the acceptable exceptions under its policies and procedures.</p> <p>PRDE understand that this finding should not be considered an exception, for the procurement process was performed in compliance with PRDE's noncompetitive procurement procedures. However, PRDE understands the importance to review and improve its procurement procedures. For this reason, PRDE's Procurement Office is conducting a comprehensive assessment to make a new purchasing regulation. This assessment will allow PRDE to address any kind of breaches that may arise from the purchasing processes of goods and services. Besides the assessment to develop new procurement policies and procedures, PRDE is carrying out additional measures by evaluating the consolidation of all procurement processes that are performed by other offices. This will allow PRDE's Procurement Office to perform all procurement processes regardless of whether the source of funding is local/state or federal. In addition, PRDE is implementing the integration of its current purchasing system, known as Strategic Sourcing. This system will allow PRDE to perform additional processes to acquire other elements other than goods and services by using the same software system.</p> <p>Due to the economic situation of the island, the local government has imposed measures to ensure the stability and functioning of government agencies, by requiring to purchase those services that are offered by other government agency or division. This measure by decreasing the costs many of these services result when acquiring them to an external or private company. In the event where an agency is unable to provide the goods or services according to the established specifications, the use of non-governmental suppliers may proceed. This situation explains one of the instances related to the use of non-competitive measures to purchase goods or services mentioned by the auditors.</p> <p>However, for the other two instances related to the use of non-competitive methods, even though both transactions are listed as exceptions under PRDE's current procurement procedures manual, we understand that not all documentation was available during auditor's review. PRDE will continue to work towards maintaining all documentation of its procurement processes. In relation to the instances where the program did not provide sufficient documentation of the procurement history from a specific non-federal entity, PRDE states that due to the onslaught of Hurricane Maria, countless documents archived in PRDE's premises were severely damaged. PRDE recognizes the importance of maintaining its procurement records and is evaluating methods to prevent such situations from happening in the future.</p> | June 30, 2020 | Norma J. Rolón Barada, Director of Procurement | No USDE determination has been received regarding the 2018 Single Audit finding. |
| 2018-16 | In our internal controls and compliance testing as to the Common Origination and Disbursement (COD) reporting, we selected a sample of sixty (60) participants and noted that in seven (7) instances the PRDE did not provide evidence of reporting the adjustments that should have been made through the student payment data in the COD System. | 84.007.84.033, 84.063 | None | In progress | <p>The PRDE understands the condition of this finding, however it does not fully agree with it. During the process of reviewing the information of this finding, the program staff reviewed and compared the data contained in the COD report against the data used to make disbursements to students who participate in the supplementary grants. During this process, the PRDE noticed a discrepancy between these reports.</p> <p>The disbursements made by the PRDE are aligned to the authorizations received from the USDE through the ED Express platform, so we are confident that all disbursements were made according to the parameters established by the government to provide assistance through this program.</p> <p>Since we are acquiring a new information system that serves this and the other findings, we understand that future instances will be considerably reduced. Also, we emphasize that this topic among many other will be covered in the technical assistance session to be held between September and November 2019 that PRDE is coordinating with USDE as a result of a recent Program Review.</p> <p>USDE recently accepted the PRDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRDE partially disagrees. We expect that this process will allow PRDE to provide additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day-to-day operations to provide the most high-quality service and education to our students.</p> <p>On January 24, 2020, ITEC received approval for additional time to complete the file review for findings 4 and 5. This timeline extension will allow USDE and the Federal Student Aid to continue with the review process and define the settlement agreement.</p> | June 30, 2020 | Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education Kelvin J. Pagán, Technical Education Program Director | No USDE determination has been received regarding the 2018 Single Audit finding. |
| 2018-17 | In testing compliance with the return of Title IV funds requirement, we selected sixty (60) participants of the Title IV Federal Financial Assistance programs and identified those students who withdrew, dropped-out, or failed to attend to the institution. During our evaluation of compliance with these requirements, we noted the following exceptions: While reviewing and recalculating the return of Title IV funds determinations/calculations for conformity with Title IV requirements, we noted the following deficiencies: - In one (1) case the institution computed the return of Title IV funds incorrectly. - For four (4) students, PRDE did not provide evidence as to the return of Title IV funds calculation | 84.007.84.033, 84.063 | Could not be determined | In progress | <p>Although these cases pointed out by the auditors are isolated cases, PRDE recognizes the importance of maintaining an accurate record of the funds that are disbursed to students and the responsibility for the return of Funds.</p> <p>Regarding the instance of the incorrectly computed return of funds, PRDE will review and correct this case accordingly.</p> <p>Regarding the 4 other instances where no evidence of the return of funds was provided, it was explained to the auditor that this evidence was not available, since the PRDE usually drawdowns Title IV funds at the end of each semester, contemplating all necessary adjustments per student that must reduce the amount of PRDE's revenue.</p> <p>PRDE has established the following procedures; continuous training of all Financial Aid Personnel regarding Return of Title IV Funds (R2TA) reporting regulations. Monitoring of the Financial Aid Personnel, who are responsible for R2TA calculations, to ascertain appropriate procedures and regulations are being followed and reports are accurate and consistent with the PRDE records.</p> <p>The US Department of Education will provide a seminar on September 2019 to all the institution's personnel involved in managing Title IV funds. The Return to Title IV funds will be one of the topics to discuss. We expect that the seminar will help us to prevent the recurrence of the above conditions in the future.</p> <p>USDE recently accepted the PRDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRDE partially disagrees. We expect that this process will allow PRDE to provide additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day-to-day operations to provide the most high-quality service and education to our students.</p> <p>On January 24, 2020, ITEC received approval for additional time to complete the file review for findings 4 and 5. This timeline extension will allow USDE and the Federal Student Aid to continue with the review process and define the settlement agreement.</p> | June 30, 2020 | Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education Kelvin J. Pagán, Technical Education Program Director | No USDE determination has been received regarding the 2018 Single Audit finding. |
| 2018-18 | During our compliance testing with this requirement, we selected a sample of sixty (60) participants and examined evidence of payments disbursed to students. While reviewing the disbursements evidence we noted the following: For four(4) students, auditors noted that six (6) Pell payments were paid after 14 days of the occurrence of the credit balance on the student account. - For eight (8) students, auditors noted that eleven (11) FWS payments were compensated in a period that exceeded one month - For two (2) students, PRDE did not provide evidence (Payroll) as to student work performed on the FWS program - For one (1) student, PRDE did not provide evidence that student (or parent) received the corresponding payment. | 84.007.84.033, 84.063 | Could not be determined | In progress | <p>PRDE acknowledge the importance of maintaining appropriate records to comply with all federal requirements regarding the use of Title IV funds.</p> <p>Regarding the instances where payments were made outside of the appropriate timing, PRDE is in the process of acquiring a completely new Student Information System with an integrated Financial Aid module. This system will provide with automatize attributes to monitor the process of payments. This will allow PRDE staff to comply with the specific requirements related to disbursement of payments to or on behalf of students. Additionally, PRDE is working with the local Central Government to implement the corrective actions in order to prevent the recurrence of this finding.</p> <p>Regarding the lack of evidence provided to the auditors on the payroll and receipt of payments, our institutions were strongly devastated by the aftermath of hurricanes Irma and Maria and a lot of student records were destroyed by floods. The new information system that PRDE expects to have fully implemented by FY 19-20, will allow PRDE to transition student files from paper to electronic format.</p> <p>PRDE expects these measures will prevent the future recurrence of this finding. USDE recently accepted the PRDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRDE partially disagrees. We expect that this process will allow PRDE to provide additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day to day operations to provide the most high-quality service and education to our students.</p> <p>On January 24, 2020, ITEC received approval for additional time to complete the file review for findings 4 and 5. This timeline extension will allow USDE and the Federal Student Aid to continue with the review process and define the settlement agreement.</p> | June 30, 2020 | Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education Kelvin J. Pagán, Technical Education Program Director | No USDE determination has been received regarding the 2018 Single Audit finding. |
| 2018-19 | From a sample of sixty (60) students who received Title IV funds during the period under audit, auditors noted the following exceptions: In eighteen (18) instances, the need analysis worksheet ("Hoja de Trabajo para la determinación de necesidad") did not account for all the financial assistance awarded during the period under audit in order to determine that the financial assistance does not exceed the student's financial need. In one (1) instance, the student did not maintain satisfactory academic progress, as stated in PRDE policy; however, a Pell disbursement occurred. For one (1) student of which Title IV Funds were disbursed during the year, the student's file was not available for the auditor's review. | 84.007, 84.033, 84.063 | Could not be determined | In progress | <p>Regarding the instance in which the student doesn't show satisfactory academic progress and however a disbursement occurs, we categorize this instance as an isolated case. The Institute's staff perform a case-by-case check on each student's academic performance at the end of the semester. This information is shared with the financial assistance staff to ensure student eligibility is correct. Although this internal control are implemented and have always been a very valuable tool to limit the recurrence of this type of situations, PRDE will revise the controls in place and perform any update needed to strengthen the process.</p> <p>With regards to the academic's files not available for auditor's examination, our institutions were strongly devastated by the aftermath of hurricanes Irma and Maria and a lot of student records were destroyed by floods. The new information system that PRDE expects to have fully implemented by FY 19-20, will allow PRDE to evaluate the transition of student files from paper to electronic format. PRDE expects the new system will be fully implemented during the fiscal year 2019-2020.</p> <p>USDE recently accepted the PRDE request for appeal regarding the Final Determination Program Review received in 2019. This Program Review yielded a number of findings with which the PRDE partially disagrees. We expect that this process will allow PRDE to provide additional documentation and the outcome of this appeal will lead us to identify additional measures to implement that actually help us improve our day to day operations to provide the most high-quality service and education to our students.</p> <p>On January 24, 2020, ITEC received approval for additional time to complete the file review for findings 4 and 5. This timeline extension will allow USDE and the Federal Student Aid to continue with the review process and define the settlement agreement.</p> | June 30, 2020 | Yolanda Cartagena, Auxiliary Secretary for Career and Technical Education Kelvin J. Pagán, Technical Education Program Director | No USDE determination has been received regarding the 2018 Single Audit finding. |

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|---------|--|--------|-------------------------|-------------|--|---------------|---|--|
| 2018-20 | <p>During our test for compliance procedures with Annual Report Cards and High School Graduation Rate, we selected 40 students that were excluded from the adjusted cohort rate. For these students, we examined the written documentation that the student has a valid reason to be excluded of the calculation. During our examination, the written documentation of exclusion was not available of four (4) of the forty (40) students selected.</p> | 84.010 | Could not be determined | In progress | <p>DEPR recognizes the importance of maintaining and securing the information of all our students. Unfortunately, during the 2017-18 school year, Puerto Rico was shot down by one of the most fateful natural phenomena in history.</p> <p>Hurricanes Irma and Maria brought in their wake countless problems which was the loss of information that was stored in many of our school campuses, regional and central offices. After a couple of days of hurricane Irma, when Puerto Rico was not ready to face a new challenge, a new tempest was coming. On September 18, 2017, the Puerto Rico Government started announcing the proximity of hurricane Maria. The projections showed that the hurricane was going to hit Puerto Rico directly. On September 18, 2017 the Government could only provide a very limited time for public employees to secure documentation and equipment at schools, districts, educational regions and central offices. PRDE staff did everything they could to keep all possible documents safe, however it was a great challenge to recover all of these.</p> <p>Prospectively, the DEPR is evaluating the possibility of convert some additional paper form processes into electronic. In this way we can safeguard the information in case we are dejected again by a similar phenomenon. We hope that these initiatives will direct us to minimize instances like these in the near future.</p> | June 30, 2020 | <p>Francisco Martinez Oronoz, Interim Auxiliary Secretary of Federal Affairs Ileana Cortés Burgos, Title I Program Coordinator Reinaldo Del Valle, Interim Planning Office Director</p> | No USDE determination has been received regarding the 2018 Single Audit finding. |
| 2018-21 | <p>During our test for compliance procedures with Assessment System Security, we selected 40 schools to review the policies and procedures regarding the test security for the assessments and review documentation of the implementation of those security measures. The implementation of those measures is examined with a security agreement signed by the school director and before and during assessments monitoring reviews conducted to ensure the security and confidentiality of its administration.</p> <p>Specific instances identified during our review of security implementation were as follows:</p> <ol style="list-style-type: none"> 1. For sixteen (16) of forty (40) schools examined, no security agreements ("Certificación de Medidas de Seguridad") were available for our review. 2. For six (6) of forty (40) schools examined, no documentation of monitoring reviews conducted before assessment tests were available for our review. 3. For seven (7) of forty (40) schools examined, no documentation of monitoring reviews conducted during assessment tests were available for our review. | 84.010 | Could not be determined | In progress | <p>PRDE recognize how data maintenance ensures the important work that the system does in educating children Especially, when it comes to measuring the efficiency of the teaching provided to them through our system. Unfortunately, during the 2017-18 school year, Puerto Rico was struck by one of the most fateful natural phenomena in modern history.</p> <p>Hurricanes Irma and Maria brought in their wake countless problems which was the loss of information that was stored in many of our school campuses, regional and central offices. After a couple of days of hurricane Irma, when Puerto Rico was not ready to face a new challenge, a new tempest was coming. On September 18, 2017, the Puerto Rico Government started announcing the proximity of hurricane Maria. The projections showed that the hurricane was going to hit Puerto Rico directly. On September 18, 2017 the Government could only provide a very limited time for public employees to secure documentation and equipment at schools, districts, educational regions and central offices. PRDE staff did everything they could to keep all possible documents safe, however it was a great challenge to recover all of these.</p> <p>For this reason, we understand that the observations made by the auditors are an isolated, non-recurring case.</p> | June 30, 2020 | <p>Francisco Martinez Oronoz, Interim Auxiliary Secretary of Federal Affairs Daisy Hernández, Assessment Unit</p> | No USDE determination has been received regarding the 2018 Single Audit finding. |

**Puerto Rico Department of Education
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**Corrective Action Plan
Year Ended June 30, 2019**

Finding Number: 2019-001

Federal Programs: CFDA No. 10.559; National School Lunch Program
 CFDA No. 84.002; Adult Education – Basic Grants to States
 CFDA No. 84.010; Title I Grants to Local Educational Agencies
 CFDA No. 84.027; Special Education – Grants to State
 CFDA No. 84.041 Impact Aid
 CFDA No. 84.048; Career and Technical Education - Basic Grants to States
 CFDA No. 84.367; Supporting Effective Instruction State Grants

Grant Award Numbers: H027A140003 (7/1/2014 – 9/30/2015), H027A160003 (7/1/2016 - 9/30/2018),
 H027A170003 (7/1/2017 - 9/30/2019), H027A180003 (7/1/2018 - 9/30/2020),
 S010A170052 (7/1/2017 - 9/30/2019), S010A180052 (7/1/2016 - 9/30/2020),
 S041B20135689, 161PR300306 (10/1/2015 – 9/30/2016), V048A180052 (7/1/2018 -
 9/30/2020), S367A180052 (7/1/2018 - 9/30/2020), V002A170053 (7/1/2017 - 9/30/2019)

Category: Financial Statement Finding
 Internal Control / Compliance

Compliance Requirement: Allowable Costs / Cost Principles

Condition:

As part of our audit procedures, we obtained an accounts receivable listing and identified duplicated payments issued during the year ended June 30, 2019, distributed as follows:

| <u>CFDA</u> | <u>Description</u> | <u>Receivable Balance</u> |
|--------------------------------|---|-------------------------------|
| <i>Federal Programs:</i> | | |
| 84.027 | Special Education - Grants to State | \$ 66,631 |
| 84.010 | Title I Grants to Local Educational Agencies | 27,473 |
| 84.041 | Impact Aid | 24,174 |
| 10.559 | Summer Food Service | 20,220 |
| 84.048 | Career and Technical Education | 5,675 |
| 84.367 | Supporting Effective Instruction State Grants | 2,816 |
| 84.002 | Adult Education - Basic Grants to States | 885 |
| | | <u>147,874</u> |
| <i>Others:</i> | | |
| N/A | Schoolwide | 2,170,426 |
| N/A | School Food Authority | 76,146 |
| N/A | Consolidated Funds | 18,014 |
| | | <u>2,264,586</u> |
| N/A | State Funds | 4,073,081 |
| | Total others | <u>6,337,667</u> |
| Total improper payments - 2019 | | <u>\$ 6,485,541</u> |

Accounts receivable arise from overpayments or merchandise returns to suppliers, improper salary payments, payments to employees without accumulated vacations or sick leave balances, and others. Accounts receivable are

**Puerto Rico Department of Education
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**Corrective Action Plan
Year Ended June 30, 2019**

recorded in a subsidiary ledger when detected or identified. However, the expenditures in the related funds are reversed when amounts are actually collected. Accordingly, expenditures reported as federal financial assistance programs costs in the schedule of expenditures of federal awards include unallowable costs for those amounts that remain uncollected at the end of each year.

A similar finding was reported last year as item 2018-002.

Questioned costs related to this situation amount to \$147,874.

A portion of the \$2,264,586 included in the accounts receivable balance relates to federal programs. Questioned costs related to these federal programs included within this balance are not determinable.

Corrective Action Plan:

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

Due to the fact that approximately 98% of the outstanding balance of accounts receivable relates to improper payroll payments, PRDE continues to work on the project for the implementation of automating its process to prevent improper salary payments, overpayments and/or payments to employees without accumulated vacations or sick leave balances, among others.

PRDE's Human Resource Office developed a new policy of Time, Attendance and Tardiness, effective July 2019. That same month, during the Annual PRDE School Director's Convention, they coordinated and held an extensive training session about its applicability and severity to more than 900 school directors who will now be entrusted to transfer that knowledge among other employees of their respective schools.

In relation to the timely collection of accounts receivable balances, Payroll and Finance units have begun working on revisions to existing procedures in order to: (a) promptly identify existing employees without accumulated vacation or sick leave balance; (b) calculate any overpayments; and (c) establish payment plans to collect balances owed through payroll deductions.

Contact persons: Amarillys Silver Rodríguez, Undersecretary of Administration
 Evelyn Rodríguez Cardé, Director of Finance
 Judith Parrilla Rivera, Accounts Receivable Supervisor

Anticipated completion date: June 30, 2021

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

Corrective Action Plan Year Ended June 30, 2019

Finding Number: 2019-002

Federal Programs: CFDA No. 84.027; Special Education – Grants to States
CFDA No. 84.367; Supporting Effective Instruction State Grants

Grant Award Numbers: H027A180003 (7/1/2018 - 9/30/2020), S367A180052 (7/1/2018 - 9/30/2020)

Category: Financial Statement Finding
Internal Control / Compliance

Compliance Requirement: Allowable Costs / Cost Principles / Cash Management

Condition:

During our testing of internal controls, compliance and financial audit procedures, we selected a total of one hundred and forty-four (144) employees for our testing procedures. While performing our review over the physical personnel files maintained by the Human Resources department and the payroll stubs and evidence provided by the Payroll department, we noted the following matters and exceptions:

- In three (3) instances of one hundred and forty-four (144), Form 499R-4 was missing from the files examined.
- In three (3) instances of one hundred and forty-four (144), Medicare withholdings were not properly made.

Corrective Action Plan:

PRDE is committed to comply with its established policies. As so, the PRDE has distributed to all its human resources and payroll staff a written notice of the required Medicare withholding and documentation that needs to be kept in the personnel's files. This, as a way to reinforce the already implemented policies and procedures that prove to be effective since its implementation in 2015, as no exceptions related to this matter have been found by external auditors for 5 consecutive years. A compliance monitoring process is in place to ensure proper documentation of transactions in personnel records.

On January 30, 2015, PRDE's Auxiliary Secretary of Human Resources issued a memorandum titled "Required Documents in the Personnel File." This memorandum emphasized the importance of maintaining all required documentation in the personnel files and instructed employees to maintain the necessary accurate and timely information, forms, certifications, memoranda and other documentation regarding the human resources history and transactions for its employees. Personnel within multiple offices and branches of PRDE were trained on this memorandum.

Also, all PRDE staff working with personnel files are required to complete a checklist of the required documents for each personnel file.

PRDE understands that reinforcing its policies and procedures to all its Human Resources and Payroll staff will result in the non-recurrence of this finding.

Contact persons: Carlos M. Rivera Montañez, Interim Auxiliary Secretary of Human Resources
Nannette M. Jiménez Osorio, Assistant of the Auxiliary Secretary of Human Resources

Anticipated completion date: June 30, 2021

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**Corrective Action Plan
Year Ended June 30, 2019**

Finding Number: 2019-003

Federal Programs: CFDA No. 10.555 and 10.559; Child Nutrition Cluster
 CFDA No. 10.558; Child and Adult Care Food Program
 CFDA No. 84.002; Adult Education - Basic Grants to States
 CFDA No. 84.007, 84.033, 84.063; Student Financial Assistance Cluster
 CFDA No. 84.048; Career and Technical Education - Basic Grants to States
 CFDA No. 84.287; Twenty-First Century Community Learning Centers
 CFDA No. 84.377; School Improvement Grants

Grant Award Numbers: V048A170052 (7/1/2017 - 9/30/2019), S377A160053 (7/1/2016 - 9/30/2018),
 181PR300306 (10/1/2017 - 9/30/2018), 191PR300306 (10/1/2018 - 9/30/2019),
 V002A170053 (7/1/2017 - 9/30/2019), V002A180053 (7/1/2018 - 9/30/2020),
 S287C170039 (7/1/2017 - 9/30/2018), P063P180414 (7/1/2018 - 6/30/2019)

Category: Internal Control / Compliance

Compliance Requirement: Cash Management

Condition:

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

- In one (1) of two hundred and five (205) disbursements selected for testing, the federal funds deposited to the Entity's account were disbursed after the required time frame of three (3) business days of their availability. A similar finding was reported last year as finding 2018-005.

The exception noted under the program during the performance of our tests was as follows:

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

| Voucher Number | Check Number | Check Date | Deposit Date | Days over 3 Day Limit | Amount |
|-----------------------|---------------------|-------------------|---------------------|------------------------------|---------------|
| 901750 | 14059 | 4/30/2019 | 4/24/2019 | 1 | \$ 233,142.50 |

- In testing compliance and internal control over the cash management requirement for the Student Financial Aid cluster, the auditors selected a sample of eight (8) draw-downs out of eighty-nine (89) draw requests during FY 2018-19 in the G5 system and noted on twelve (12) payments out of 2,549 payments within the eight (8) draws selected, that these were disbursed after the required time frame of three (3) business days of their availability.

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

| Voucher Number | Check Number | Check Date | Deposit Date | Days over 3 Day Limit | Amount |
|-----------------------|---------------------|-------------------|---------------------|------------------------------|--------------------|
| IP008645 | 00212574 | 2/14/2019 | 10/25/2018 | 80 | \$2,527.50 |
| IP008951 | 00013065 | 1/25/2019 | 12/6/2018 | 36 | 2,932.50 |
| 00879845 | 00210403 | 1/3/2019 | 12/20/2018 | 10 | 2,272.50 |
| 00879662 | 00211547 | 1/23/2019 | 12/20/2018 | 24 | 2,332.50 |
| 00879811 | 00210374 | 1/3/2019 | 12/20/2018 | 10 | 2,227.50 |
| 00879741 | 00012000 | 1/3/2019 | 12/20/2018 | 10 | 2,572.50 |
| 00879740 | 00012038 | 1/4/2019 | 12/20/2018 | 11 | 1,822.00 |
| 00879739 | 00012006 | 1/3/2019 | 12/20/2018 | 10 | 2,452.50 |
| 00879738 | 00012041 | 1/4/2019 | 12/20/2018 | 11 | 2,452.50 |
| 00879737 | 00210389 | 1/3/2019 | 12/20/2018 | 10 | 2,272.50 |
| 00879735 | 00011993 | 1/3/2019 | 12/20/2018 | 10 | 1,289.00 |
| 00879733 | 00011991 | 1/3/2019 | 12/20/2018 | 10 | 2,332.50 |
| | | | | | \$27,486.00 |

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

- In one (1) instance out of two hundred and five (205) disbursements selected for testing, the federal funds were deposited to the Entity's account prior to the date of the check.

The exception noted under the program during the performance of our tests was as follows:

CFDA No. 84.377; School Improvement Grants

| Voucher Number | Check Number | Check Date | Deposit Date | Days Prior to the Date of Reimbursement | Amount |
|-----------------------|---------------------|-------------------|---------------------|--|---------------|
| 19AP4743 | 203108 | 9/13/2018 | 9/12/2018 | 1 | \$ 100,483.40 |

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- In seven (7) instances out of two hundred and five (205) disbursements selected for testing, we identified that check clearance date was several days after being issued as further detailed below. Management was unable to prove when the checks were actually released to its intended recipients since checks are delivered by the Puerto Rico Treasury Department. The time elapsed for check clearance may be caused by delays in the deposits made by the supplier, vendor or sub-recipient or by internal delays in the processing of the payment. This deficiency is considered an internal control finding.

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

CFDA No. 10.555 and 10.559; Child Nutrition Cluster

| Voucher Number | Check Number | Check Date | Check Clearance Date | Days over 30 Days | Amount |
|-----------------------|---------------------|-------------------|-----------------------------|--------------------------|---------------------|
| 920339 | 241258 | 6/13/2019 | 10/15/2019 | 122 | \$ 14,437.55 |
| 870464 | 204733 | 10/23/2018 | 12/18/2018 | 55 | 23,271.86 |
| | | | | | \$ 37,709.41 |

CFDA No. 10.558; Child and Adult Care Food Program

| Voucher Number | Check Number | Check Date | Check Clearance Date | Days over 30 Days | Amount |
|-----------------------|---------------------|-------------------|-----------------------------|--------------------------|--------------------|
| 19AP8431 | 199324 | 7/26/2018 | 9/12/2018 | 46 | \$ 6,856.37 |
| 19AP5071 | 198763 | 7/17/2018 | 8/31/2018 | 43 | 2,579.16 |
| | | | | | \$ 9,435.53 |

CFDA No. 84.002; Adult Education - Basic Grants to States

| Voucher Number | Check Number | Check Date | Check Clearance Date | Days over 30 Days | Amount |
|-----------------------|---------------------|-------------------|-----------------------------|--------------------------|--------------------|
| 867031 | 9277 | 11/8/2018 | 6/13/2019 | 215 | \$ 2,169.29 |
| 892554 | 240200 | 6/6/2019 | 1/27/2020 | 231 | 154.54 |
| | | | | | \$ 2,323.83 |

CFDA No. 84.287; Twenty-First Century Community Learning Centers

| Voucher Number | Check Number | Check Date | Check Clearance Date | Days over 30 Days | Amount |
|-----------------------|---------------------|-------------------|-----------------------------|--------------------------|---------------|
| 19AP7001 | 00202254 | 9/5/2018 | 11/19/2018 | 74 | \$ 33,464.89 |

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**Corrective Action Plan
Year Ended June 30, 2019**

Corrective Action Plan:

PRDE developed new procedures in its Accounting System (SIFDE) to automate the payment system and has made significant progress in designing and implementing additional internal controls to prevent recurring findings. As mentioned in letter sent by the Audit Resolution Division (ARD) on February 26, 2020, the ARD acknowledges the progress made so far.

PRDE is now entering into a contract with a third-party fiduciary agent that will perform financial management duties currently performed by PRDE, and that is required under EDGAR 34 CFR Parts 75 and 76, and 2 CFR Part 200, for all ED grants awarded by ED to PRDE on or after the date of the June 28, 2019 specific conditions, and for all grants previously awarded by ED to PRDE that are still available for obligation or liquidation on the date of the specific conditions.

Therefore, PRDE will abide by all terms and conditions listed in the June 28, 2019 specific conditions and ensure that our cash management policies and corrective actions are aligned with Federal regulations, the same that require PRDE to minimize the time elapsing between the transfer of funds and disbursement.

Contact person: Evelyn Rodríguez Cardé, Director of Finance
Judith Parrilla Rivera, Accounts Receivable Supervisor

Anticipated completion date: June 30, 2021

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

Corrective Action Plan Year Ended June 30, 2019

Finding Number: 2019-004

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

Grant Award Numbers: S010A150052 (7/1/2015 – 9/30/2018), S010A160052 (7/1/2016 – 9/30/2018),
S010A170052 (7/1/2017 – 9/30/2019), S010A180052 (7/1/2018 – 9/30/2020)

Category: Internal Control

Compliance Requirement: Eligibility

Condition:

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

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

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

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

| Number | Socioeconomic physically counted | Socioeconomic study entered on SIE | Difference |
|--------|----------------------------------|------------------------------------|------------|
| 01. | 629 | 668 | (39) |
| 02. | 390 | 432 | (42) |
| 03. | 701 | 1,311 | (610) |
| 04. | 190 | 244 | (54) |

Also, from the five (5) schools we visited, we were able to physically examine 2,020 "Datos de unidad familiar" forms and noticed that a total of 633 forms or 31% were not signed by the parent/in charge.

2. In each of the five (5) schools visited, we randomly selected twelve (12) forms "Datos de unidad familiar: Estudio Socio Económico Año 2017-2018" from each school considered for socioeconomic report to ensure that income on the form equals income entered on SIE. We found that from a total of sixty (60) forms examined and traced to SIE data, on thirty-three (33) forms or 55%, the income reported does not equal SIE data. Moreover, we found that fourteen (14) out of the sixty (60) or 23% of forms examined, the number of family members included in the form were not equal to family members entered in SIE. Also, we found that in four (4) forms of a total of 60 examined, the date of birth on student files does not equal SIE data.
3. In one (1) of the five (5) schools visited, we noticed that in two (2) of the twelve (12) students' files examined in the school, no socioeconomic physical form was available for review.

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4. In one (1) of the five schools visited, the forms used for the socioeconomic study were not the ones that corresponded to the year 2017-2018. The version used did not required the parents' signature.
5. One (1) of 2,020 physical forms of "Datos de Unidad Familiar" where archived at the student file.

A similar finding was reported last year as item 2018-006.

Corrective Action Plan:

During February 2018, PRDE implemented an electronic process for the pre-enrollment of the 2018-2019 academic year. The electronic pre-enrollment process facilitated the flow of information for real-time decision making, streamlining the internal processes of the Department. However, in its first year of implementation, the electronic pre-enrollment process did not substitute the paperwork parents where required to complete the enrollment of its child, including the socioeconomic study data form. During that period, PRDE made enhancements to the electronic enrollment system and included the socioeconomic study data form in order for parents to register their child's personal information, family's income and composition.

In November 2019, PRDE encouraged parents to initiate the enrollment process for the 2020-2021 Academic Year in the now enhanced online enrollment system. The enrollment period is still open and families are being able to use a computer at school to perform the enrollment process. However, paper forms will be available only for parents without computer or internet access, and School Directors will be responsible to submit any student information into the system. PRDE expects a reduction in this type of observation during next fiscal year.

Contact persons: Francisco Martínez Oronoz, Auxiliary Secretary for Federal Affairs
 Ileana Cortés Burgos, Title I Program Coordinator

Anticipated completion date: June 30, 2020

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**Corrective Action Plan
Year Ended June 30, 2019**

Finding Number: 2019-005

Federal Programs: CFDA No. 10.555 and 10.559; Child Nutrition Cluster

Grant Award Numbers: 1PR300336 (10/1/2018 – 9/30/2019)

Category: Internal control

Compliance Requirement: Special Tests and Provisions – Verification of Free and Reduced-Price Applications (NSLP)

Condition:

During our internal control and compliance testing we identified one (1) instance of five (5) sponsors examined where the filing date of the Verification of Free and Reduced Price Applications document was completed after the required due date of November 15th of each year. As per the examination of the sponsor file, the Verification of Free and Reduced-Price Applications document was completed on December 19, 2018.

Corrective Action Plan:

PRDE's management reviewed the exception stated by the auditors and considers this exception an isolated instance. PRDE's management is aware of the importance of timely issuing the Verification of Free and Reduced Price Applications to ensure compliance. On an annual basis, the program's internal control procedures are reviewed to ascertain compliance and timely filing of all required federal reports. However, due to a health-related unenforceable situation, the Verification of Free and Reduced-Price Applications report for one sponsor was submitted after the required date. The Program has proven to be in compliance with all previous and subsequent submissions of its required federal reports. We understand auditors should provide a proper perspective regarding the prevalence and consequences of this finding considering this to be an isolated instance.

Contact persons: Lourdes N. García Santiago, Interim Director of State Agency, Food and Nutrition Services

Anticipated completion date: June 30, 2020

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Corrective Action Plan Year Ended June 30, 2019

Finding Number: 2019-006

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

Grant Award Numbers: V048A180052 (7/1/2018 – 9/30/2020)

Category: Internal control / Compliance

Compliance Requirement: Level of Effort – Maintenance of Effort

Condition:

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

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

For FY 2017-2018, State funds expenditures on PRDE accounting records for Career and Technical Education program amounted to \$60,602,857 with a certified enrollment of 33,504 students. The dollar amount assigned per student was \$1,808.82.

Aggregated efforts decreased from FY 2016-2017 to FY 2017-2018 in the amount of \$10,194,961 or -14.40%. The State's per-student effort decreased by \$95.34 or -5.01%.

The student enrollment decreased from FY 2016-2017 to FY 2017-2018 by 3,676 students, while the States aggregate expenditures decreased by \$10,194,961. Therefore, per-student effort was reduced.

Under the per-student basis computation, the States' total aggregate expenditures amounted to \$60,602,857 and should have amounted to \$70,797,819. The rate per student amounted to \$1,808.82 and should have been \$1,904.19.

The State's aggregate expenditures should amount to at least \$70,797,819, matching total States expenditures for the second preceding year (Fiscal Year 2016-2017), to comply with Level of Effort – Maintenance-of-Effort under the aggregate basis of expenditures computation.

A similar finding was reported last year as item 2018-008.

Corrective Action Plan:

PRDE closely monitors compliance with the Maintenance of Effort (MOE) requirement. While PRDE has historically complied with this provision, in recent years, PRDE has experienced fluctuation in both federal and state funding for career and technical education. In addition, the Government of the Commonwealth of Puerto Rico has experienced challenging financial circumstances resulting in a decrease in the state budget for education for the past few years.

Further, due to the current financial circumstances in Puerto Rico and the Financial Oversight and Management Board's ultimate control over State funding, and most recently the adverse impacts of Hurricanes Irma and María, Puerto Rico

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Corrective Action Plan Year Ended June 30, 2019

can no longer rely on the same sources to calculate MOE and needs to revise its methodology.

The U.S. Department of Education (ED or the Department) has been cognizant of PRDE's need to revise its MOE methodology since the 2015 single audit process. Specifically, on November 9, 2016, PRDE received a Program Determination Letter (PDL) for the audit period July 1, 2014 through June 30, 2015. Finding 2015-011 noted that PRDE did not meet the MOE requirement under either of the two available computation methods. The Department sustained the auditors finding 2015-011 and requested: (1) revised policies and procedures to calculate MOE, and (2) spreadsheets showing actual expenditures for CTE for the two years in question.

PRDE received a technical assistance visit from OCTAE during May 15-16, 2019, related to the implementation of the new Perkins V Act. During this visit, USDE requested additional information regarding the MOE state expenditures for FY's 2016-2017 and 2017-2018. USDE also indicated that it will provide this additional information to the Audit Division to finally conclude the resolution of these findings.

On February 21, 2020, PRDE received a communication from OCTAE concerning possible options for the PRDE to consider regarding the resolution of the outstanding audit issues related to the MOE for State fiscal years 2015-2016 thru 2018-2019. The PRDE submitted a waiver request for this purpose on June 5, 2020. On June 18, 2020, PRDE received another communication from OCTAE requesting additional information as part of our request evaluation. The PRDE successfully submitted to OCTAE this information on June 24, 2020 and is awaiting resolution of this matter. We are committed to comply with this requirement and will continue monitoring it periodically.

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

Anticipated completion date: December 31, 2019

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**Corrective Action Plan
Year Ended June 30, 2019**

Finding Number: 2019-007

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

Grant Award Numbers: P007A184591 (7/1/2018 - 6/30/2019), P033A184591 (7/1/2019 - 6/30/2019),
P063P184014 (7/1/2018 - 6/30/2019)

Category: Internal control / Compliance

Compliance Requirement: Reporting – Special Report – Late Submission of Fiscal Operations Report and Application to Participate

Condition:

In testing compliance and internal controls over Reporting - Special Report, the auditors obtained copy of the Fiscal Operations Report and Application to Participate ("FISAP") for the Award Year 2018-2019 and noted that the report was submitted late (on October 3, 2019; after the deadline date).

Corrective Action Plan:

PRDE disagrees with the auditor's finding in part. We recognize the importance of complying with the filing of all required reports as part of the responsibility to manage federal post-secondary education funds for students in the public system. We want to emphasize that the fiscal year 2018-19 FISAP report was timely filed on October 1st, 2019. However, is not until the data is entered into the system, that a final report is generated and PRDE proceeds on obtaining its CEO's signature, resubmitting the signed final FISAP report to the system. PRDE acknowledges that the FISAP report was filed on time except for the signature page, filed on October 3rd, 2019.

PRDE will continue to work to ensure that this instance is not repeated in the future and that all report requirements are filed on or before their respective due dates.

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

Anticipated completion date: June 30, 2020

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

**Corrective Action Plan
Year Ended June 30, 2019**

Finding Number: 2019-008

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

Grant Award Numbers: P063P184014 (7/1/2018 - 6/30/2019)

Category: Internal control / Compliance

Compliance Requirement: Special Tests and Provisions – Enrollment Reporting

Condition:

The PRDE did not submit the Enrollment Reporting Roster File updated to the National Student Loan Data System (“NSLDS”) and other information as required by federal regulations during fiscal year 2018-2019.

A similar finding was reported last year as item 2018-011.

Corrective Action Plan:

PRDE understands the auditor’s observations and agrees with this finding in part.

Recognizing the importance of complying with the submission of the information requested by federal regulations, PRDE has taken action to remedy the lack of submission of the NSLDS reports of all periods discovered to date. PRDE has shared with NSLDS offices the limitations that were faced to comply with the filing of the reports in the recent years and presented a plan to obtain the student’s information needed to complete the reports. This process started a few months ago, a waiver request was submitted and granted covering all periods mentioned and PRDE has recovered all the student data needed to successfully file all pending reports.

Despite the additional challenges we are going through related to earthquakes and the COVID-19 pandemic, PRDE successfully submitted in May 2020 all the evidence of the reports that were pending without exceptions.

We are confident that the new process established to report the NSLDS data will allow us to continue filing every future report requested by any federal regulation.

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

Anticipated completion date: May 30, 2020

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

**Corrective Action Plan
Year Ended June 30, 2019**

Finding Number: 2019-009

Federal Programs: All Major Programs

Grant Award Numbers: 181PR300306 (10/1/2017 – 9/30/2018), 191PR300306 (10/1/2018 – 9/30/2019), H027A160003 (7/1/2016 - 9/30/2018), H027A170003 (7/1/2017 - 9/30/2019), H027A180003 (7/1/2018 - 9/30/2020), H173A180002 (7/1/2018- 9/30/2019), S010A160052 (7/1/2016 - 9/30/2018), S010A170052 (7/1/2017 - 9/30/2019), S010A180052 (7/1/2016 - 9/30/2020), S287C170039 (7/1/2017- 9/30/2018), S365A150052 (7/1/2015 - 9/30/2018), S365A160052 (7/1/2016 - 9/30/2018), S365A170052 (7/1/2017 - 9/30/2019), S367A160052 (7/1/2016 - 9/30/2018), S367A170052 (7/1/2017 - 9/30/2019), S367A180052 (7/1/2018 - 9/30/2020), S938A180002 (4/26/2018 - 4/26/2020), S938C180021 (11/7/2018 - 12/31/2018), V002A160053 (7/1/2016 - 9/30/2018), V002A170053 (7/1/2017 - 9/30/2019), V002A180053 (7/1/2018 - 9/30/2020), V048A160052 (7/1/2016 - 9/30/2018), V048A170052 (7/1/2017 - 9/30/2019), V048A180052 (7/1/2018 - 9/30/2020), PA-02-PR-4339-PW-01039 (9/20/2017 - 5/30/2019)

Category: Internal Control / Compliance

Compliance Requirement: Procurement

Condition:

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

- In three (3) of five hundred forty-nine (549) disbursements examined, we noted that the non-federal entity was not able to provide records sufficient to detail the history of procurement for the amount of \$59,260.

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

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

A similar finding was reported last year as item 2018-015.

Corrective Action Plan:

This past January 2020, Puerto Rico faced the unforeseen series of earthquakes that impacted the southern part of the island, resulting in the closure of school campuses and administrative offices. Two out of three instances stated in this finding are located at the affected region. Temporarily, PRDE does not have access to those procurement files, until professional personnel are able to access the affected infrastructure.

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Year Ended June 30, 2019**

Regarding the third instance stated in the finding, PRDE understands the importance of this finding and is working continuously to strengthen its recordkeeping processes.

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

Anticipated completion date: June 30, 2021

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

**Corrective Action Plan
Year Ended June 30, 2019**

Finding Number: 2019-010

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

Grant Award Number: P063P164014 (7/1/2016 - 6/30/2017), P063P174014 (7/1/2017 - 6/30/2018),
P063P184014 (7/1/2018 - 6/30/2019)

Category: Internal Control / Compliance

Compliance Requirement: Reporting – COD Reporting

Condition:

In our internal controls and compliance testing as to the Common Origination and Disbursement (“COD”) reporting, we selected a sample of sixty (60) participants and noted that in nine (9) instances, payments made were not reported through the COD within the required timeframe and in four (4) instances the PRDE did not provide evidence of reporting the adjustments that should have been made through the student payment data in the COD System.

A similar finding was reported last year as finding 2018-016.

Corrective Action Plan:

“Instituto Tecnológicos de Puerto Rico” (“ITEC”) has entered into a purchase agreement with a renowned software development company which specializes in student information systems to include academics, financial aid and accounting, which will finally provide us the interface with ITEC’s ORACLE and PeopleSoft accounting systems. The ITEC has programmed that for the 2020-2021 Academic Year the new Student Information System (SIS) will allow the program to automatically register all the student aids that student is eligible to receive in that period.

With the implementation of the Campus IVY Core – Software License for Financial Aid Automation, in combination with the internal procedures that are being established, the ITEC will start the corrective actions process that will solve the identified findings.

Additional internal control strategies have been implemented at the Central Office to have double validation, one-on-one analysis, validation of information from one system before it enters the other systems (transfer of information between student information system to accounting system) and the unprecedented establishment of the “Financial Aid Unit” at the Central Office which was carefully drafted and developed with written guidelines and procedures as an internal control measure developing the compliance culture as we prepare to implement the Orbund/Campus Ivy System Software; the staff that has already been trained will be the staff involved in the use of the new software.

In addition, with the new system, the teachers are able to maintain correct attendance information. Therefore, ITEC is now monitoring properly all students enrolled and, it is maintaining exact and precise records of enrollment.

This is all part of the action plan that ITEC has developed to correct deficiencies in order to avoid recurrence of the identified findings. This action plan includes the following specific, measurable, attainable objectives:

- Continued training
- Continued guidance
- Improved Student Information System
- Revised policies and procedures
- Improved communication of policies and procedures as well as between key offices (including but not limited to Registrar and Financial Aid)

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

**Corrective Action Plan
Year Ended June 30, 2019**

- Internal file auditing

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

Anticipated completion date: June 30, 2021

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

Corrective Action Plan Year Ended June 30, 2019

Finding Number: 2019-011

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

Grant Award Numbers: P063P164014 (7/1/2016 - 6/30/2017), P063P174014 (7/1/2017 - 6/30/2018),
P063P184014 (7/1/2018 - 6/30/2019)

Category: Internal Control / Compliance

Compliance Requirement: Special Test and Provisions - Return of Title IV Funds

Condition:

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

- For ten (10) students, PRDE did not provide evidence as to the return of Title IV funds calculation, neither evidence that return was made within the required timeframe.

A similar finding was reported last year as item 2018-017.

Corrective Action Plan:

DEPR recognizes the importance of maintaining and securing the information of all our students. Unfortunately, during the 2017-18 school year, Puerto Rico was shot down by one of the most fateful natural phenomena in history. Hurricanes Irma and María brought in their wake countless problems, including the loss of information that was stored in many of our campuses, regional and central offices. Following that event, in January 2020 an earthquake of 6.4 hit the southern part of the island, leaving the Ponce campus buildings in a very deteriorated state. Personnel from the campus had no or very limited access to students files.

As a way to secure and maintain the information of all our students, the ITEC has entered into a purchase agreement with a renowned software development company which specializes in student information systems to include academics, financial aid and accounting. The ITEC has programmed that for the 2020-2021 Academic Year, the new Student Information System (SIS) will allow each campus to identify those students who withdrew, dropped-out, or failed to attend to the institution and complete the calculation of the return of Title IV funds. This is feasible with the new system, because it allows teachers to maintain a correct attendance information. Therefore, ITEC is now monitoring properly all students enrolled and, it is maintaining exact and precise records of enrollment.

Additional internal control strategies have been implemented at the Central Office to have double validation, one-on-one analysis, validation of information from one system before it enters the other systems (transfer of information between student information system to accounting system) and the unprecedented establishment of the "Financial Aid Unit" at the Central Office, which was carefully drafted and developed with written guidelines and procedures as an internal control measure, developing the compliance culture, as we prepare to implement the Orbund/Campus Ivy System Software; the staff that has already been trained will be the staff involved in the use of the new software.

This is all part of the action plan that ITEC has developed to correct deficiencies in order to avoid recurrence of the identified findings. This action plan includes the following specific, measurable, attainable objectives:

- Continued training
- Continued guidance

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- Improved Student Information System
- Revised policies and procedures
- Improved communication of policies and procedures as well as between key offices (including but not limited to Registrar and Financial Aid)
- Internal file auditing

Moreover, as an additional internal control measure, PRDE has developed a collaboration between the Finance Office (responsible for the final return of money to the federal government through systems enabled for this purpose) and the SFA Office, thru the implementation of a form that will document the process of cancellation of student checks to which for any applicable reason an adjustment or full return of funds is needed. The Finance Division will complete the return of funds on a monthly basis, according to the information that has been provided by the program. PRDE expects to implement this measure immediately to prevent the recurrence of this finding.

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

Anticipated completion date: June 30, 2021

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

Corrective Action Plan Year Ended June 30, 2019

Finding Number: 2019-012

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

Grant Award Numbers: P033A174591 (7/1/2017 - 6/30/2018), P063P174014 (7/1/2017 - 6/30/2018),
P007A184591 (7/1/2018 - 6/30/2019), P033A184591 (7/1/2019 - 6/30/2019),
P063P184014 (7/1/2018 - 6/30/2019)

Category: Internal Control / Compliance

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

Condition:

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

- For thirteen (13) students, auditors noted that eighteen (18) Pell payments amounting to \$32,632 were paid after 14 days of the occurrence of the credit balance on the student account.
- For seventeen (17) participants, auditors noted that twenty-five (25) FSEOG payments amounting to \$1,978 were paid after 14 days of the occurrence of the credit balance on the student account.
- For thirteen (13) participants, auditors noted that twenty-four (24) FWS payments amounting to \$6,447 were compensated in a period that exceeded one month.

A similar finding was reported last year as item 2018-018.

Corrective Action Plan:

ITEC has entered into a purchase agreement with a renowned software development company which specializes in student information systems to include academics, financial aid and accounting, which will finally provide us the interface with ITEC's ORACLE and PeopleSoft accounting systems. The ITEC has programmed that for the 2020-2021 Academic Year, the new Student Information System (SIS) will allow each campus to register the payroll directly in the system and on a periodic basis. Therefore, FWS payments will be disbursed within a period of less than one month, once the student has completed its biweekly work schedule and its direct supervisor approves the payroll.

Regarding the Pell and FSEOG payments that were paid after 14 days of the occurrence of the credit balance on the student account, the ITEC has now register 100% of students bank accounts. This allows the ITEC to process all of its students aids through an ACH payment, reducing the days drastically to 2 or 3 days of the occurrence of the credit balance on the student account.

With the implementation of the Campus IVY Core – Software License for Financial Aid Automation, in combination with the internal procedures that are being established, the ITEC will start the corrective actions process that will solve the identified findings.

Additional internal control strategies have been implemented at the Central Office to have double validation, one-on-one analysis, validation of information from one system before it enters the other systems (transfer of information between student information system to accounting system) and the unprecedented establishment of the "Financial Aid Unit" at the Central Office, which was carefully drafted and developed with written guidelines and procedures as an

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internal control measure, developing the compliance culture, as we prepare to implement the Orbund/Campus Ivy System Software; the staff that has already been trained will be the staff involved in the use of the new software.

In addition, with the new system, the teachers are able to maintain correct attendance information. Therefore, ITEC is now monitoring properly all students enrolled and, it is maintaining exact and precise records of enrollment.

This is all part of the action plan that ITEC has developed to correct deficiencies in order to avoid recurrence of the identified findings. This action plan includes the following specific, measurable, attainable objectives:

- Continued training
- Continued guidance
- Improved Student Information System
- Revised policies and procedures
- Improved communication of policies and procedures as well as between key offices (including but not limited to Registrar and Financial Aid)
- Internal file auditing

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

Anticipated completion date: June 30, 2021

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

**Corrective Action Plan
Year Ended June 30, 2019**

Finding Number: 2019-013

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

Grant Award Numbers: P007A174591 (7/1/2017 - 6/30/2018), P033A174591 (7/1/2017 - 6/30/2018), P063P174014 (7/1/2017 - 6/30/2018), P007A184591 (7/1/2018 - 6/30/2019), P033A184591 (7/1/2018 - 6/30/2019), P063P184014 (7/1/2018 - 6/30/2019)

Category: Internal Control

Compliance Requirement: Eligibility

Condition:

From a sample of sixty (60) students who received Title IV funds during the period under audit, auditors noted that in seventeen (17) instances, the need analysis worksheet ("Hoja de Trabajo para la determinación de necesidad") did not account for all the financial assistance awarded during the period under audit in order to determine that the financial assistance does not exceed the student's financial need. However, during our alternate audit procedures performed with which all the financial aid granted to these students were considered, in none instances the total Title IV Funds awarded exceeded their financial need.

A similar finding was reported last year as item 2018-019.

Corrective Action Plan:

ITEC has entered into a purchase agreement with a renowned software development company which specializes in student information systems to include academics, financial aid and accounting, which will finally provide us the interface with ITEC's ORACLE and PeopleSoft accounting systems. The ITEC has programmed that for the 2020-2021 Academic Year the new Student Information System (SIS) will allow the program to automatically register all the student aids that student is eligible to receive in that period.

With the implementation of the Campus IVY Core – Software License for Financial Aid Automation, in combination with the internal procedures that are being established, the ITEC will start the corrective actions process that will solve the identified findings.

Additional internal control strategies have been implemented at the Central Office to have double validation, one-on-one analysis, validation of information from one system before it enters the other systems (transfer of information between student information system to accounting system) and the unprecedented establishment of the "Financial Aid Unit" at the Central Office, which was carefully drafted and developed with written guidelines and procedures as an internal control measure, developing the compliance culture, as we prepare to implement the Orbund/Campus Ivy System Software; the staff that has already been trained will be the staff involved in the use of the new software.

In addition, with the new system, the teachers are able to maintain correct attendance information. Therefore, ITEC is now monitoring properly all students enrolled and, it is maintaining exact and precise records of enrollment.

This is all part of the action plan that ITEC has developed to correct deficiencies in order to avoid recurrence of the identified findings. This action plan includes the following specific, measurable, attainable objectives:

- Continued training
- Continued guidance
- Improved Student Information System

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- Revised policies and procedures
- Improved communication of policies and procedures as well as between key offices (including but not limited to Registrar and Financial Aid)
- Internal file auditing

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

Anticipated completion date: June 30, 2021

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

**Corrective Action Plan
Year Ended June 30, 2019**

Finding Number: 2019-014

Federal Programs: CFDA No. 97.036; Disaster Grants – Public Assistance

Grant Award Numbers: PR-4339-PW-01039(1250) (9/20/2017 - 5/30/2019)

Category: Internal Control / Compliance

Compliance Requirement: Period of Performance

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.

Corrective Action Plan:

The Department recognizes the importance of liquidating funds within the period established for each of the federal awards.

The reason for this was due to the circumstances caused by the atmospheric events of Hurricanes Irma and María, along with the severe fiscal, economic and liquidity crisis on the Island, leading the PRDE to experience a delay in recovery efforts, including the FEMA funds authorized for the PRDE.

Throughout the implementation of this federal program, the federal government has continued to work closely with PRDE to complete all approved projects. Furthermore, during the period of time that the projects were carried out, the federal agency has been very reasonable and understanding of the circumstances that directly affect the recuperation work being completed by PRDE. Accordingly, the liquidation of the tested disbursement was possible because FEMA kept the funds available for the PRDE and furtherly proceeded with the federal reimbursement.

Contact persons: Amarillys Silver Rodríguez, Undersecretary of Administration

Anticipated completion date: June 30, 2021

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

Corrective Action Plan Year Ended June 30, 2019

Finding Number: 2019-015

Federal Programs: CFDA No. 84.938C; Temporary Emergency Impact Aid for Displaced Students

Grant Award Numbers: S938C180021 (11/7/2018 – 12/31/2018)

Category: Internal Control / Compliance

Compliance Requirement: Special Tests – Prohibition on Using Funds for Section 8003 Impact Aid Students

Condition:

During our test for internal controls and compliance procedures with Prohibition on Using Funds for Section 8003 Impact Aid Students special test requirement, we selected sixty (60) students identified as displaced to compare supporting documentation for the Section 8003 Impact Aid application with the supporting documentation for the displaced students covered under Emergency Impact Aid program and ascertain that students are not included under both programs.

PRDE did not provide supporting documentation for those students selected and we could not ascertain that students are not included under both programs.

Corrective Action Plan:

According to the external auditor's petition, PRDE has verified the sample of the students that participated from the Emergency Impact Aid (selected by the external auditors) and have found that some students were included in both, the Emergency Impact Aid population used to apply for this grant and also in the Basic Impact Aid 2018 Census, as provided by the program.

PRDE submitted the Basic Impact Aid Census in January and September 2018 (taking into consideration the amended census), and the Emergency Impact Aid application with eligible participants between June and September 2018 (taking into consideration the amended applications). Later, in November 2018, PRDE received the grant award notification for the Emergency Impact Aid for Displaced Students.

With the existing timeline in mind, let's review the statutory requirement in the special funding rule which is the following: Special Funding Rule. In calculating funding under section 7003 of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 7703) for an eligible local educational agency that receives an emergency impact aid payment under this section, the Secretary of Education shall not count displaced students served by such agency for whom an emergency impact aid payment is received under this section, nor shall such students be counted for the purpose of calculating the total number of children in average daily attendance at the schools served by such agency as provided in section 7003(b)(3)(B)(i) of such Act (20 U.S.C. 7703(b)(3)(B)(i)).

Accordingly, at the time of both submissions, PRDE had not yet received any Emergency Impact Aid funding/payment, nor was aware if the USDE was going to authorize the entirety of the funds petitioned through any of the Impact Aid programs. Based on this information, we conclude that PRDE complied with the requirement established in section 7003, since no payment was even received in order to be able to distinguish the students to be included in the applications at the time that the applications were submitted.

Contact persons: Dr. Francisco J. Martinez Oronoz, Auxiliary Secretary of Federal Affairs
Dr. Reinaldo Del Valle Cruz, Auxiliary Secretary of the Planning Office
Dr. Lydiana I. López, Data Management and Quality Unit Director

Anticipated completion date: December 1, 2020

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

Corrective Action Plan Year Ended June 30, 2019

Finding Number: 2019-016

Federal Programs: CFDA No. 84.938C; Temporary Emergency Impact Aid for Displaced Students

Grant Award Numbers: S938C180021 (11/7/2018 – 12/31/2018)

Category: Internal Control / Compliance

Compliance Requirement: Special Tests – Documentation of Enrollment Status

Condition:

During our test for compliance procedures with Documentation of Enrollment Status, we selected 60 students identified as displaced to review how the school compiles the numbers of displaced students and categories reported in the quarterly reports to the USDE and determine that records support that they were displaced students, attended on the applicable count date, and were correctly categorized. The displaced students and categorized were compiled by enrollment data maintained by the Planning Secretariat of PRDE. Records that supports enrollment status were official transcripts, student's last individualized education program and any other documentation necessary to support categories.

Specific instances identified during our review for documentation of enrollment status were as follows:

- For six (6) of the sixty (60) students examined, the documentation received did not support them as displaced students since movements in its enrollments were to the same school.
- For five (5) of the sixty (60) students examined, the documentation indicated that they were enrolled up to end of school year in two schools at the same time. One of the school enrollments disqualified the student as displaced.

In addition, we noticed that the documentation received supporting data used for quarterly reports and total reports has a total of \$5,093,875 in payments to students in which the original school and actual school are the same. Actual school is the school used by PRDE as benchmark to identify students as displaced.

Corrective Action Plan:

During the course of our most recent single audit review, the external auditor identified that a number of students were mistakenly included in our initial count of "displaced students" in the case of public schools, within PRDE's September 2018 submission. Specifically, the majority of these identified students reenrolled in the same school in which they were enrolled prior to the hurricanes in 2017. The other part of students were included in the report because they transferred to other schools, but when the data was entered into the system, the codes that are used in the Student Information System (SIS) to record for exiting/transfers were mistakenly used. PRDE did not intend to include these students in our initial count for displaced students. At the time of the report, PRDE was working under extraordinary circumstances, while also trying to recuperate from the disasters faced. However, the mistake was not identified until after the grant closed in March 2019.

Accordingly, when the preliminary finding was notified to the Single Audit Committee, PRDE proceeded to analyze the data and work with the issues identified by the auditors. We worked with the appropriate offices within the agency to review the issue and verify the proper count of displaced students for the 2017-2018 school year. We re-ran the data search using the appropriate terms and date ranges as identified in responses to A-2, B-5, and B-6 questions of the June 2018 version of the "Frequently Asked Questions (FAQs) for the Temporary Emergency Impact Aid for Displaced

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Corrective Action Plan Year Ended June 30, 2019

Students (Emergency Impact Aid) Program, CFDA Number: 84.938C.” Specifically, we reviewed the data for those students who, within the four quarters of the 2017-2018 school year:

- Resided in the area of a covered disaster or emergency on the date that is one week prior to the date that the major disaster or emergency was declared for the area; and
- As a result of the covered disaster or emergency, enrolled in an elementary school or secondary school other than the school that the student was enrolled in, or was eligible to be enrolled in, on the date that is one week prior to the date that the major disaster or emergency was declared for the area.

PRDE included the updated enrollment numbers meeting the definition of displaced students during the four quarters of the 2017-2018 school year and to be transparent and completely honest, as it is our duty, with the United States Department of Education (USDE), submitted a letter dated March 4, 2020, to the Disaster Recovery Unit (DRU), seeking to start discussions and solutions about this matter.

Our analysis showed that there were in fact a number of students who should not have been included; however, we also identified that there were a significant number of students who should have been included that were not. Specifically, we recognized that our initial review of displaced students only considered those students who enrolled by February 8, 2018. This was not the correct date to use, especially considering that many public schools had not reopened by that date, and many students did not enroll until later in the academic year.

Taking into consideration the crisis that was occurring during that specific school year, PRDE faced many challenges. Accessing, exchanging, and reporting data was difficult after the emergency, particularly when critical infrastructure, such as electricity, internet, and cell phone service, was compromised. As guidelines in this field outline, we ask you to understand our situation at that historic moment.

There was a significant number of students who enrolled in a different school due to the devastation caused by the 2017 hurricanes, but after February 2018. Taking that into consideration, after validations and re-calculations subtracting the ineligible students from the period up to February 8 and adding the ones that should have been included within that period and after (up to April 1, 2018), the updated data showed that 2,050 of students, covering 2,476 instances, were not included in the original data set, even though they met the required criteria. Accordingly, the final data reflects that PRDE had a total of 13,649 displaced eligible students, that are 30,433 overall instances. Properly, PRDE was entitled to receive the amount of \$70,179,000 in the case of public schools, which is greater than the amount of \$69,043,750, which the Department authorized us (for public schools).

Our final analysis shows, even though the original student count included some students that indeed transferred out but did not meet all the parameters of the displaced student criteria, PRDE nonetheless underreported the total number of students and incidences in our original submission. As such, PRDE received less funding than it should have based on the actual number of displaced students during the 4 quarters of the 2017-18 school year. Moreover, we understand that the underreporting offsets the discrepancy of the initial count of over reported students. In addition, the PRDE – Planning Office and its Data Management and Quality Unit in conjunction with OSIATD and the OREs data stewards’ team, has taken additional steps to ensure the consistency of the SIS data collection processes and procedures and has made proper adjustments for collecting detailed displaced students data for future incidents.

The USDE responded to our communication stating that: the information in the letter will be considered along with the other documentation PRDE provides for the upcoming monitoring of the program. Due to the COVID-19 pandemic, federal on-site visits and monitoring have been delayed until further notice. However, PRDE continues to be prepared for the coming monitoring processes and is in the best disposition to work along with the USDE with any outstanding matter they understand that still need attention.

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Moreover, the DRU referred this issue to the Office of Inspector General (OIG) and a team from the OIG was putted together to audit PRDE. After the exchange of various emails, while we were lockdown and working from home, the lead of the OIG team approached PRDE to start the planning stages of the audit procedures they will be performing due to this finding.

Contact persons: Dr. Francisco J. Martínez Oronoz, Auxiliary Secretary of Federal Affairs
 Dr. Reinaldo Del Valle Cruz, Auxiliary Secretary of the Planning Office
 Dr. Lydiana I. López, Data Management and Quality Unit Director

Anticipated completion date: June 30, 2021

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Finding Number: 2019-017

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

Grant Award Numbers: S010A150052 (7/1/2015 – 9/30/2018), S010A160052 (7/1/2016 – 9/30/2018),
S010A170052 (7/1/2017 – 9/30/2019), S010A180052 (7/1/2018 – 9/30/2020)

Category: Internal Control / Compliance

Compliance Requirement: Special Test and Provisions – Assessment System Security

Condition:

During our test for compliance procedures with Assessment System Security, we selected sixty (60) schools to review the policies and procedures regarding the security tests for the assessment and review documentation of the implementation of those security measures. The implementation of those measures is examined with a security agreement signed by the school director and before and during assessments monitoring reviews conducted to ensure the security and confidentiality of its administration.

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

1. For two (2) of sixty (60) schools examined, no security agreements (“Certificación de Medidas de Seguridad”) were available for our review.
2. For two (2) of sixty (60) schools examined, no documentation of monitoring reviews conducted before assessment tests were available for our review.
3. For three (3) of sixty (60) schools examined, no documentation of monitoring reviews conducted during assessment tests were available for our review.

Corrective Action Plan:

PRDE understands the instances identified by the auditors in this finding.

The Department recognizes the importance of ensuring the security and confidentiality of the administration of the annual academic assessment, knowing that the information that is gathered, allows PRDE continuous improvement and sustain excellence of the academic programs offered to our students.

In a way to ensure the non-recurrence of this finding, PRDE has strengthened its Assessment System Security process.

For the 2018-2019 academic year, PRDE standardized the process of completing electronically the security measures certification. This prevented that documentation became damaged or missing as had previously occurred with the passing of natural disasters. However, in a way to strengthen our electronic process, PRDE performed additional programming so that once the school director completes the security measures certification, a copy is automatically sent to central level. This way, PRDE maintains back-up of every certification that is completed.

For the instances related to the monitoring procedures, PRDE established as a standard procedure that the Educational Regional Offices (ORE's, for their Spanish acronym) are required to develop a work plan detailing how each ORE would be administering the tests in its schools. Originally, these work plans were limited to testing

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procedures, but now these must include in detail the calendar of pre- and during-test monitoring process that will be performed at each school.

Contact persons: Francisco Martínez Oronoz, Auxiliary Secretary of Federal Affairs
Daisy Hernández, Assessment Unit

Anticipated completion date: June 30, 2021

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**Corrective Action Plan
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Finding Number: 2019-018

Federal Programs: CFDA No. 97.036; Disaster Grants - Public Assistance

Grant Award Numbers: PA-02-PR-4339-PW-01039 (9/20/2017 – 5/30/2019)

Category: Internal Control / Compliance

Compliance Requirement: Reporting

Condition:

From the sixteen (16) requests for reimbursements made during the period, auditors selected for review two (2) forms SF-270 - Requests for Advance or Reimbursements, however, we were unable to inspect such forms as management was unable to provide them.

Corrective Action Plan:

The Department recognizes the importance of maintaining records to show compliance with program requirements.

In a way to ensure the non-recurrence of this finding, PRDE will strengthen its recordkeeping processes to support the reimbursements made during the period, in this case the SF-270 - Requests for Advance or Reimbursements Forms.

Nevertheless, is important to note that such forms had to be completed and sent to the Federal Emergency Management Agency (FEMA) since this is the only way the PRDE made requests for advance or reimbursements. Eventually, FEMA disbursed federal funds for both requests.

Contact persons: Amarillys Silver Rodríguez, Undersecretary of Administration

Anticipated completion date: June 30, 2021