

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

**FINANCIAL STATEMENT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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



***CPA DIAZ-MARTINEZ, PSC***  
**CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS**

*Member of:*



Governmental Audit Quality Center  
Puerto Rico Society of Certified Public Accountants  
Enrolled in the AICPA Peer Review Program Since 1988

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**PART I**  
**FINANCIAL**

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

## INDEPENDENT AUDITOR'S REPORT

Honorable Eliezer Ramos  
Acting Secretary  
Puerto Rico Department of Education  
of the Commonwealth of Puerto Rico  
San Juan, Puerto Rico

### Report on the Financial Statement

We have audited the accompanying cash-basis financial statement of the **Puerto Rico Department of Education of the Commonwealth of Puerto Rico (PRDE)** (an executive agency), which comprise Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds for the fiscal year ended June 30, 2020, 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 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 statement that are free from material misstatement, whether due to fraud or error.

### ***Auditor’s Responsibility***

Our responsibility is to express opinions 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 of 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 **PRDE’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 **PRDE’s** internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

**INDEPENDENT AUDITOR'S REPORT**  
**Honorable Eliezer Ramos, Acting Secretary**  
**Puerto Rico Department of Education**  
**of the Commonwealth of Puerto Rico**  
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statement referred to above present fairly, in all material respects, the cash receipts and disbursements of the **PRDE** governmental funds, and the respective cash-basis net changes thereof for the fiscal year ended June 30, 2020, in conformity with the basis of accounting described in Note 2.

***Basis of Accounting***

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

***Emphasis of Matters***

*Uncertainty about Ability to Continue as a Going Concern – Primary Government*

The **PRDE** is part of the Commonwealth of Puerto Rico (Commonwealth). The accompanying financial statement of the **PRDE** have been prepared assuming that the Commonwealth will continue as a going concern. As discussed in Note 3 to the financial statement, the Commonwealth's recurring deficits, negative financial position, further deterioration of its economic condition, and inability to access the credit markets raises substantial doubt about the Commonwealth's ability to continue as a going concern. Additionally, the Commonwealth is currently restructuring its obligations in an orderly fashion under Title III of the U.S. Congress Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA"). Management's plans regarding these matters are also described in Note 3. The financial statement does not include any adjustments that might result from the outcome of this uncertainty. Our opinions are not modified with respect to this matter.

*Other*

As discussed in Note 1, the financial statement of **PRDE** is intended to present the cash receipts, disbursements, and net changes of the governmental funds of only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of **PRDE**. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Other Matters***

*Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statement as a whole that collectively comprise the **PRDE**'s basic financial statement. The accompanying management's discussion and analysis are presented for purposes of additional analysis and are not a required part of the basic financial statement.



**INDEPENDENT AUDITOR'S REPORT**  
**Honorable Eliezer Ramos, Acting Secretary**  
**Puerto Rico Department of Education**  
**of the Commonwealth of Puerto Rico**  
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Management's discussion and analysis information presented on pages 5-15 have not been subjected to the auditing procedures applied in the audit of the basic financial statement, and accordingly, we do not express an opinion or provide any assurance on such information.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, on pages 46-52, is presented for purposes of additional analysis and is not a required part of the financial statement. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects, in relation to the financial statement as a whole.

**Other Reporting Required by Governmental Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2021 on our consideration of PRDE's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PRDE's internal control over financial reporting and compliance.



CPA DIAZ-MARTINEZ, PSC  
Certified Public Accountants & Consultants  
License Number 12, expires on December 1, 2022

Caguas, Puerto Rico  
September 29, 2021

Stamp No. E459381 of the Puerto Rico Society of Certified  
Public Accountants was affixed to the original report.

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## **Introduction**

This section of the financial statement is classified by the Governmental Accounting Standard Board (GASB) as Required Supplementary Information (“RSI”). Because the cash-basis financial statement presented by PRDE are based in “Other Comprehensive Basis of Accounting” (OCBOA), which is an accounting and financial reporting standards have not been established by GASB (that is, the designated GAAP standard setter for state and local governments in the United States), any such RSI required by GASB in GAAP-basis financial statements is not considered RSI that must accompany OCBOA financial statement. Therefore, in OCBOA financial statement for state and local governments, there are no RSI requirements because there is no designated standard setter for such OCBOA frameworks.

However, the PRDE determine to “include” this GAAP-RSI in their OCBOA financial statement. Accordingly, the information is considered an other information (OI for OCBOA cash-basis financial statement). It is intended to provide an objective and easily readable analysis of the government’s financial activities. Along with the Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds, the management’s discussion and analysis should provide the users with the most relevant information regarding the financial condition result of operation of the Puerto Rico Department of Education (“PRDE”) as of during the fiscal year ended June 30, 2020, 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, 2020. 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, Disbursements, and Net Changes – Governmental Funds, the Schedule of Expenditures of Federal Award 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, Disbursements, and Net Changes – Governmental Funds, the Schedule of Expenditures of Federal Award. The discussion will focus on major components of the Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds 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 \$1.50 billion, which represents a 68%, approximately, of PRDE’s total cash receipts. The budget appropriations for the Commonwealth’s Department of Education have 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.

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'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, two-years post-Hurricane María, only 292,518 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 2019, Puerto Rico's public schools started off with approximately 54,000 fewer students, when compared to 2017 (pre-Hurricanes' Irma and María). This significant drop in student's enrollment is largely attributed to students relocating to stateside schools.

All in all, two-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 public schools throughout the Island, during 2018. For the 2019-2020 academic year, only 856 schools remain open.

#### *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 Retirement 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 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. 106-2017 created the legal framework so that the Commonwealth can guarantee payments to pensioners through the PayGo system.

#### *General Budget approved for Fiscal Year 2019-2020*

The Legislature approved on June 30, 2019 by Joint Resolution No. 505 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, 2020, among other appropriations. This allocation resulted in a decrease of \$80.9 million when compared to the general budget approved in FY 2018-2019.

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").

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 of Puerto Rico 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 from Puerto Rico.

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

#### *Puerto Rico Education Reform Law*

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

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 Commonwealth's liquidity continues to be challenged and their appropriations and financing ability become more uncertain, the PRDE's financial condition and illiquidity is similarly affected.

#### *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.

#### *Pandemic COVID-19*

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 occurred during Fiscal Year 2020-2021.

That same day, Law No. 37 was signed, with the intended purpose of amending Section 6 of Act No. 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.

### *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 the 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 was to strengthen 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 recognized 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.

*Specific Conditions 2020*

On June 30, 2020, the USDE imposed a series of special conditions applicable to all federal funds administered by the PRDE. These special conditions include a Third-Party Fiduciary Agent (TPFA), internal controls over payroll, personal and professional services contracts, grants management system, internal audit office and oversight committee, comprehensive corrective action plan (CCAP), and prompt response to request for records.

After this event, the PRDE has requested the reconsideration of some of these conditions in several times, however, USDE reiterates the specific conditions previously imposed and extends TPFA condition to all Puerto Rico education grants, including for the Office of the Governor.

**Financial Analysis of the Statement of Cash Receipts, Cash Disbursements and Net Changes – Governmental Funds**

**Total Governmental Activities**

The Statement of Cash Receipts, Cash Disbursements and Net Changes – Governmental Funds 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.

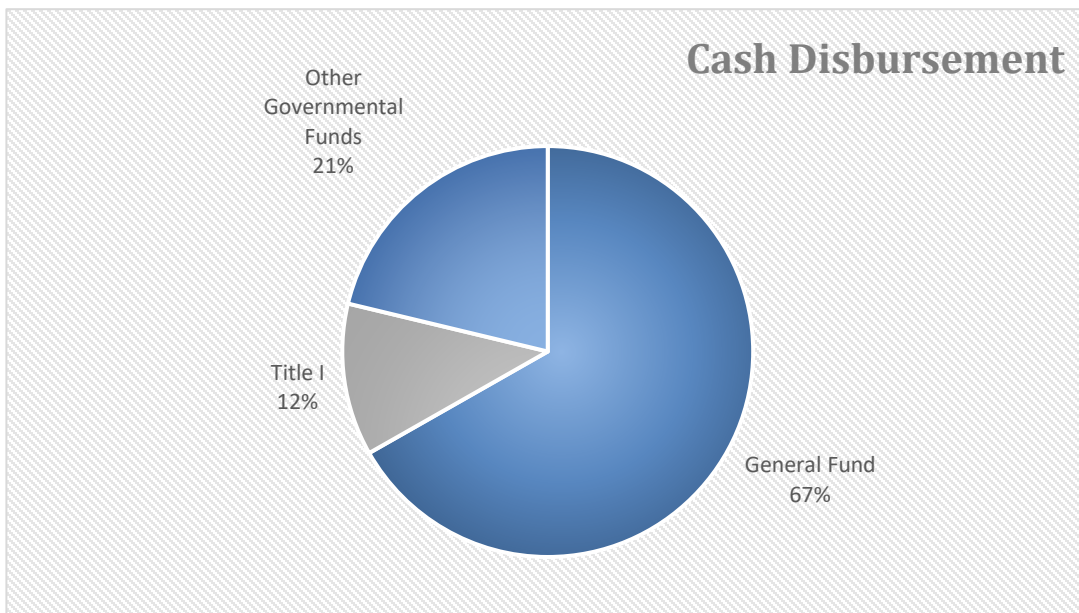
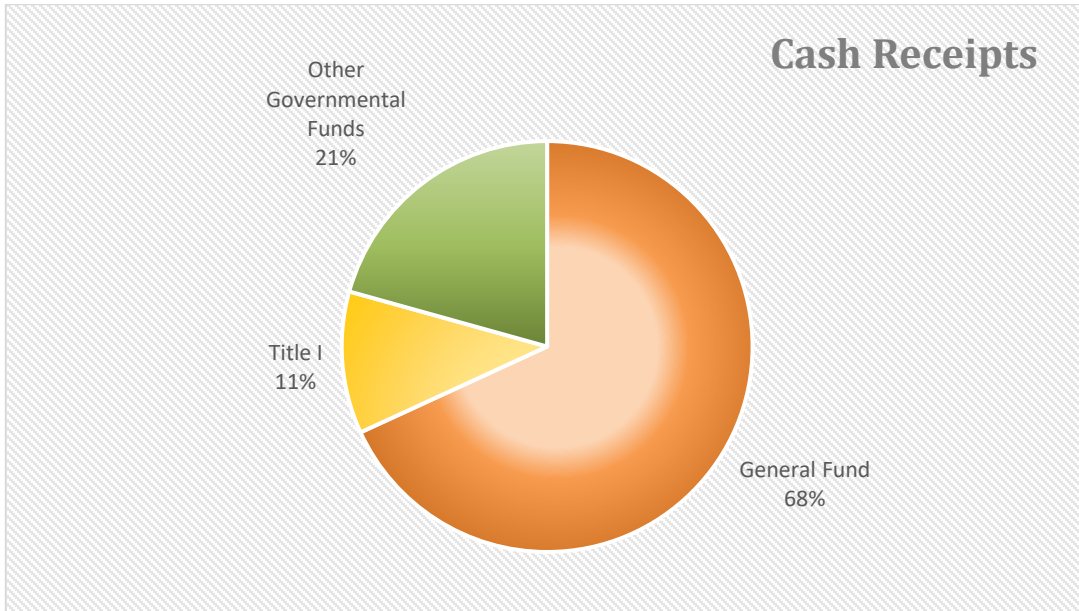
**Cash Receipts and Cash Disbursements - Total Governmental Activities Condensed Financial Information:**

|   | Year Ended June 30 |                  | Change           |            |
|---|--------------------|------------------|------------------|------------|
|   | 2020               | 2019             | In dollars       | Percentage |
| <b>Cash Receipts:</b>   |                    |                  |                  |            |
| Commonwealth Appropriations                                     | \$ 1,500,786,158   | \$ 1,621,350,964 | \$ (120,564,806) | (7.4)%     |
| Intergovernmental – Federal Government                          | 701,767,414        | 953,615,821      | (251,848,407)    | (26.4)%    |
| Total Cash Receipts   | 2,202,553,572      | 2,574,966,785    | (372,413,213)    |            |
| <b>Cash Disbursements:</b>                                      |                    |                  |                  |            |
| Current   |                    |                  |                  |            |
| General Government  | 77,026,139         | 103,946,892      | (26,920,753)     | (25.9)%    |
| Vocational and Technical Education                              | 57,135,064         | 71,882,956       | (14,747,892)     | (20.5)%    |
| Community Schools   | 1,292,634,531      | 1,335,997,872    | (43,363,341)     | (3.2)%     |
| Integrated Educative Services for the Disabled                  | 336,746,736        | 421,587,417      | (84,840,681)     | (20.1)%    |
| Food Services for Students                                      | 167,117,048        | 246,519,452      | (79,402,404)     | (32.2)%    |
| Schools' Quality of Life and Drug Free                          | 11,358,215         | 13,124,293       | (1,766,078)      | (13.5)%    |
| Adult Education   | 12,805,693         | 6,438,709        | 6,366,984        | 98.9%      |
| Technological Institutes  | 15,559,168         | 15,186,106       | 373,062          | 2.5%       |
| Auxiliary Services and Technical Assistance                     | 35,911,350         | 37,770,486       | (1,859,136)      | (4.9)%     |
| Institute for Administrative Training and Counseling to Schools | 7,495              | 1,837            | 5,658            | 308.0%     |
| COVID-19 Internal Economic Incentive                            | 724,000            | -                | 724,000          | 100.0%     |
| Public Schools Maintenance                                      | 48,464,219         | 43,660,033       | 4,804,186        | 11.0%      |
| Printing Services   | 472,316            | 568,955          | (96,639)         | (17.0)%    |
| Indirect Costs  | 39,159,524         | 79,077,685       | (39,918,161)     | (50.5)%    |
| Joint Resolutions   | 5,621,046          | 12,727,195       | (7,106,149)      | (55.8)%    |
| Special Accounts  | 120,576,572        | 88,221,453       | 32,355,119       | 36.7%      |
| Total Cash Disbursements  | 2,221,319,116      | 2,476,711,341    | (255,392,225)    | (10.3)%    |
| Excess for the Year   | \$ (18,765,544)    | \$ 98,255,444    | \$ (117,020,988) | (119.1)%   |



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:



For the year ended June 30, 2020, PRDE's Statement of Cash Receipts, Cash Disbursements and Net Changes – Governmental Funds reflects a deficiency of receipts over disbursements of \$18.8 million. The main reason for the overall deficiency 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 statement 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, the reduction observed in the cash disbursements is due to certain disbursements not made during the 2020 fiscal year after schools were closed due to the January 2020 earthquakes and the declaration of COVID-19 pandemic, later in March 2020. The cash disbursements variations (under or over 10%) for the year ended June 30, 2020, when compared to the same period in 2019 are described below:

**General Government** decreased by approximately \$26.9 million or 25.9% when compared to fiscal year 2019 mainly due to a decrease in disbursement of \$40 million for schools' renovation project made in 2019. Other decrease was related to the disbursement of \$29.2 million made in 2019 to pay prior year debts. However, the decrease was offset by various increases. A \$22.6 million related to a matching contribution necessary to meet with FEMA's requirement. A \$10 million increase related to the disbursement of special education services. A \$8.1 million increase in disbursement to hire professional and consulting personnel related to IT services. And another increase of \$1.6 million to hire additional trust appointees to assist management.

**Vocational and Technical Education** decreased by approximately \$14.7 million or 20.5% when compared to fiscal year 2019 mainly due to a reduction of approximately \$6.5 million of materials, instructional materials and equipment not distributed during fiscal year 2020, due to risk of COVID-19. Also, a decrease of approximately \$6.2 million related to the fringe benefits that were not disbursed for employees that took early retirement in the previous fiscal year. Also, a reduction of approximately \$608 thousand, due to a reduction in the FY2020 Program's budget assignment. Another reduction of approximately \$252 thousand were related to repairs that were made to the PRAMI PR Aviation Maintenance Institute on the prior fiscal year.

**Integrated Educative Services for the Disabled** decreased by approximately \$84.8 million or 20.1% when compared to fiscal year 2019, mainly due to \$33.6 million of therapy services that were not provided due to the fund restrictions that were imposed by the USDE through the Specific Conditions of FY2020. Another decrease of approximately \$24.5 million related to the transportation services that were not provided during the period when schools were closed due to the January 2020 earthquakes and the declaration of COVID-19 pandemic, later in March 2020. Another reduction of approximately \$13 million, was due to a reduction in the FY2020 Program's budget assignment, therefore the Program was not able to hire irregular and temporary/transitional positions. Also, a decrease of approximately \$10.6 million related to the fringe benefits that were not disbursed for employees that took early retirement in the previous fiscal year. Another reduction of approximately \$3.6 million was related to the transportation financial aid that was not disbursed during the period schools were closed due to the earthquake events and the declaration of COVID-19 pandemic. And a reduction of approximately \$447 thousand related to assistive technology services that were not provided during the period schools were closed due to the earthquake events and the declaration of COVID-19 pandemic.

**Food Services for Students** decreased by approximately \$79.4 million or 32.2% when compared to fiscal year 2019 mainly due to approximately \$72 million of disbursements not made during the period when schools were closed and food servings were not made due to the January 2020 earthquakes and the declaration of COVID-19 pandemic, later in March 2020. Also, a decrease of approximately \$8.4 million related to the fringe benefits that were not disbursed for employees that took early retirement in the previous fiscal year.

**Schools' Quality of Life and Drug Free** decreased by approximately \$1.8 million or 13.5% when compared to fiscal year 2019 mainly due to a reduction of approximately \$1.1 million, related to a reduction in the FY2020 Program's budget assignment. Therefore, the Program was not able to contract security services through this fund, but instead these were contracted through the Community Schools fund. Another reduction of approximately \$942 thousand, were related to services not rendered by Proyecto CASAS, during the period schools were closed due to the earthquake events and the declaration of COVID-19 pandemic. In addition, Proyecto CASAS experienced a reduction in its FY2020 budget assignment. Also, a decrease of approximately \$342 thousand related to fringe benefits that were not disbursed due to those employees that took early retirement in the previous fiscal year. This reduction was offset with an increase of approximately \$736 thousand, related to socioemotional workshops given to the school community through the Project School Emergency Response to Violence grant.

**Adult Education** increased by approximately \$6.4 million or 98.9% when compared to fiscal year 2019 is mainly due to an increase by approximately \$1.8 million in effect to an implementation of a special project carried out by the library program for the purchase of computers and printers for the enjoyment of school libraries. Additionally, the adult education program had an increase of approximately \$1.6 million for the fiscal year 2020. Such increase is due to in prior year, projects were carried out only for the second semester as a result of project implementation delays. Finally, an increase of approximately \$3.1 million was also noted during FY 2020 for purchases made during 2020 as a result of 2019 project implementation delays.

**Institute for Administrative Training and Counseling to Schools** increased by approximately \$5 thousand or 308% when compared to fiscal year 2019 mainly due to payments of prior year debts. The Training Institute program was later closed in the FY 2020.

**COVID-19 Internal Economic Incentive** increased by approximately \$700 thousand or 100% when compared to fiscal year 2019 was due to the approval of the Program in order to incentivize nurses and continue assisting during the Covid-19 pandemic.

**Public Schools Maintenance** increased by approximately \$4.8 million or 11% when compared to fiscal year 2019 mainly due to a net increase of various factors. Some of the increases noted during 2020 was an increase of approximately \$1.5 million as a result of services provided regarding school's solid waste. Also, an increase of approximately \$16.8 million was noted for FY 2020 in school improvements and maintenance. Moreover, a budget increase for approximately \$1.5 million and \$2 million was obtained for the purchase of equipment and miscellaneous services, respectively, which were expensed entirely. On the other hand, for FY 2019 the Department offered socio-emotional workshops regarding the impact of Hurricane María. Most of these workshops were offered during fiscal year 2019 representing a decrease of approximately \$17 million.

**Printing Services** decreased by approximately \$96 thousand or 17% when compared to fiscal year 2019 mainly due to the decrease of approximately \$112 thousand related to the fringe benefits that were not disbursed for employees that took early retirement in the previous fiscal year.

**Indirect Cost** decreased by approximately \$39.9 million or 50.5% when compared to fiscal year 2019 mainly due to the disbursement of approximately \$34.8 million made to AFI and OMEP for school repairs and improvements made during prior fiscal year. And a decrease of approximately \$5.7 million related to premium deposits that were paid through this fund in the previous fiscal year.

**Joint Resolutions** decreased by approximately \$7.1 million or 55.8% when compared with fiscal year 2019 was mainly due to net variances composed of a decrease of approximately \$2.6 million due to College Board tests were not offered as a result of COVID-19 lockdown. Another decrease of approximately \$9.4 million was noted for FY 2020, since matching of funds were provided for FY 2019 in fund 201. On the other hand, an increase of \$4.9 million was noted in order to lease of spaces due to school demolition, purchase of tents, chairs and no capitalizable equipment as a result of earthquakes in the south region. Finally, purchases of hygienic materials for school cafeteria staff were required by executive order.

**Special Accounts** increased by approximately \$32.4 million or 36.7% when compared to fiscal year 2019 was mainly due to an increase of approximately \$39.8 million in services provided for special education program. For FY 2020, an initial budget of \$9 million was assigned for this purpose. However, during 2020 the Agency identified approximately \$29 million of Restart funds for the same purposes which were authorized by Office of Management and Budget and the Financial Oversight and Management Board. On the other hand, a decrease of approximately \$7.5 million occurred in school food services regarding closed schools during lockdown.

### 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**

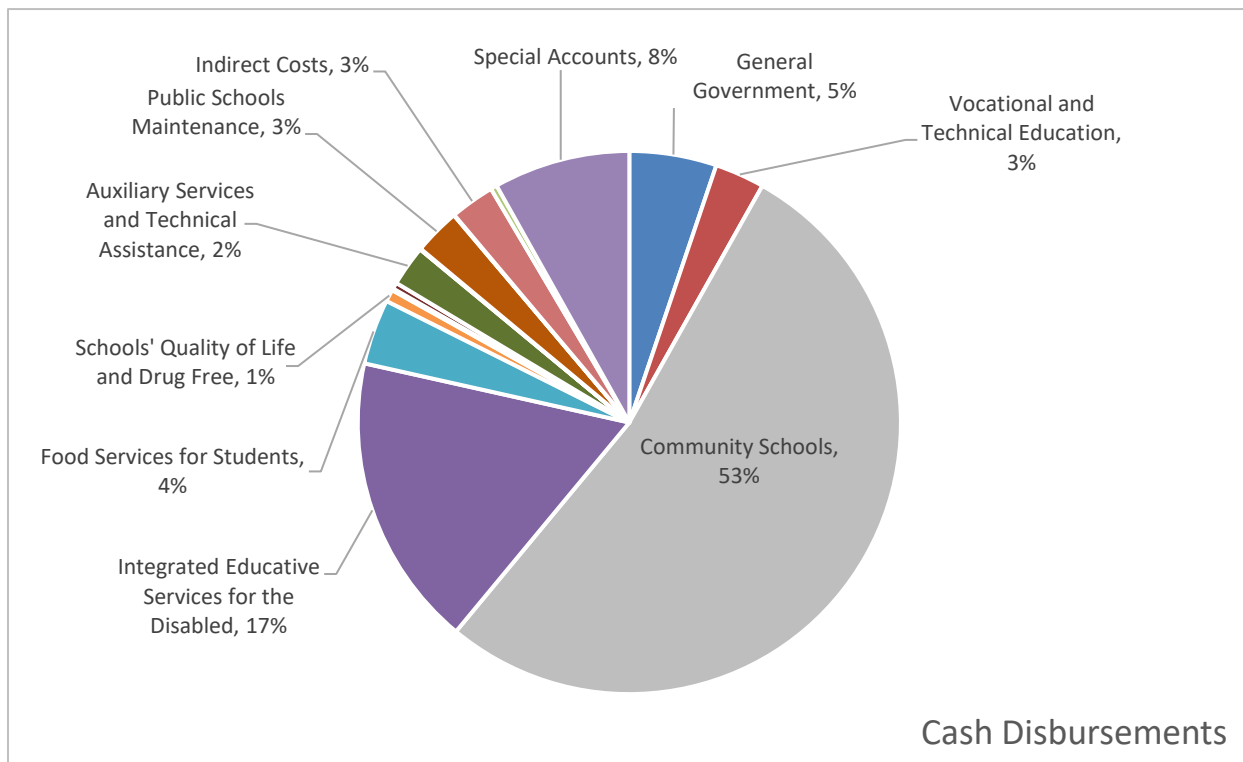
This is the main operating fund of PRDE and is used to account for the funds appropriated by the Commonwealth. Such funds are disbursed throughout the programs and functions of PRDE. The general fund is used to account for all financial transactions, except those required to be accounted for in another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

Cash Receipts and Cash Disbursements – General Fund

**Condensed Financial Information:**

|                            | <u>General Fund</u>  |                      | <u>Change</u>          |                   |
|----------------------------|----------------------|----------------------|------------------------|-------------------|
|                            | <u>2020</u>          | <u>2019</u>          | <u>In Dollars</u>      | <u>Percentage</u> |
| <b>Cash Receipts</b>       | \$1,500,786,158      | \$1,621,350,964      | \$ (120,564,806)       | -7.44%            |
| <b>Cash Disbursements</b>  | <u>1,483,244,084</u> | <u>1,555,241,197</u> | <u>(71,997,113)</u>    | -4.63%            |
| <b>Excess (Deficiency)</b> | <u>\$ 17,542,074</u> | <u>\$ 66,109,767</u> | <u>\$ (48,567,693)</u> | -73.47%           |

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:



**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 Disbursements - Title I:**

|  | Title I                       |                             | Change                        |                        |
|--|-------------------------------|-----------------------------|-------------------------------|------------------------|
|  | 2020                          | 2019                        | In dollars                    | Percentage             |
| <b>Cash Receipts:</b>                  |                               |                             |                               |                        |
| Intergovernmental – Federal Government | \$ 246,301,128                | \$ 429,662,507              | \$ (183,361,379)              | (42.7)%                |
| <b>Cash Disbursements:</b>             |                               |                             |                               |                        |
| Total Cash Disbursements               | 266,060,758                   | 409,293,646                 | (143,232,888)                 | (35.0)%                |
| <b>Excess (Deficiency)</b>             | <b><u>\$ (19,759,630)</u></b> | <b><u>\$ 20,368,861</u></b> | <b><u>\$ (40,128,491)</u></b> | <b><u>(197.0)%</u></b> |

The cash receipts reflect three award years with different funding periods. In FY 2020 and FY 2019, the PRDE received awards by approximately \$391.3 million and \$405.8 million, respectively, from Title I Grants to Local Educational Agencies. The deficiency in cash receipts over cash disbursements is mainly attributable to timing differences. Funds requested during the end of FY 2019 were received during the beginning of FY 2020. The decrease in cash disbursements of the Title I Fund responds directly to a decrease in funds granted or approved by the Federal agency during the FY 2020 compared with FY 2019. Therefore, a decrease 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.

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

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND NET CHANGES – GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

|   | <u>General<br/>Fund</u> | <u>Title I<br/>Federal<br/>Fund</u> | <u>Other Federal<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|-------------------------|-------------------------------------|---|---|
| <b>CASH RECEIPTS:</b>   |                         |                                     |   |   |
| Appropriations from the Commonwealth of Puerto Rico             | \$ 1,500,786,158        | \$ -                                | \$ -  | \$ 1,500,786,158                        |
| Intergovernmental - Federal Grants                              | -                       | 246,301,128                         | 455,466,286                                     | 701,767,414                             |
| <b>Total Cash Receipts</b>                                      | <u>1,500,786,158</u>    | <u>246,301,128</u>                  | <u>455,466,286</u>                              | <u>2,202,553,572</u>                    |
| <b>CASH DISBURSEMENTS:</b>                                      |                         |                                     |   |   |
| Current:  |                         |                                     |   |   |
| General Government  | 77,026,139              | -                                   | -   | 77,026,139                              |
| Vocational and Technical Education                              | 43,898,870              | -                                   | 13,236,194                                      | 57,135,064                              |
| Community Schools   | 784,145,726             | 266,060,758                         | 242,428,047                                     | 1,292,634,531                           |
| Integrated Educative Services for the Disabled                  | 259,243,707             | -                                   | 77,503,029                                      | 336,746,736                             |
| Food Services for Students                                      | 57,648,996              | -                                   | 109,468,052                                     | 167,117,048                             |
| Schools' Quality of Life and Drug Free                          | 10,622,104              | -                                   | 736,111   | 11,358,215                              |
| Adult Education   | 1,665,406               | -                                   | 11,140,287                                      | 12,805,693                              |
| Technological Institutes  | 5,593,811               | -                                   | 9,965,357                                       | 15,559,168                              |
| Auxiliary Services and Technical Assistance                     | 35,812,391              | -                                   | 98,959  | 35,911,350                              |
| Institute for Administrative Training and Counseling to Schools | 7,495                   | -                                   | -   | 7,495                                   |
| COVID-19 Internal Economic Incentive                            | 724,000                 | -                                   | -   | 724,000                                 |
| Public Schools' Maintenance                                     | 41,025,981              | -                                   | 7,438,238                                       | 48,464,219                              |
| Printing Services   | 472,316                 | -                                   | -   | 472,316                                 |
| Indirect Costs  | 39,159,524              | -                                   | -   | 39,159,524                              |
| Joint Resolutions   | 5,621,046               | -                                   | -   | 5,621,046                               |
| Special Accounts  | 120,576,572             | -                                   | -   | 120,576,572                             |
| <b>Total Cash Disbursements</b>                                 | <u>1,483,244,084</u>    | <u>266,060,758</u>                  | <u>472,014,274</u>                              | <u>2,221,319,116</u>                    |
| <b>NET CHANGES</b>  | <u>\$ 17,542,074</u>    | <u>\$ (19,759,630)</u>              | <u>\$ (16,547,988)</u>                          | <u>\$ (18,765,544)</u>                  |

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

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## 1. REPORTING ENTITY

### A. Organization

The Department of Education of the Commonwealth of Puerto Rico ("PRDE") was organized under Article V, Section 6 of the Constitution of the Commonwealth of Puerto Rico (the "Commonwealth"). PRDE is presented as part of the elementary, secondary and some post-secondary education throughout Puerto Rico. The Secretary of Education is appointed by the Governor of the Commonwealth of Puerto Rico.

On July 15, 1999, the Legislature of the Commonwealth of Puerto Rico enacted Act Number 149, "*Organic Law of the Puerto Rico Department of Public Education*", as amended by Act Number 85-2018, "*Puerto Rico Education Reform Law*" of March 29, 2018 (Act No. 85-2018). This Act establishes Puerto Rico's public policy in the educational area and creates a public education system focused mainly on the students. In addition, it established a budget based on average cost per student and their needs, creates free selection school and educational voucher program, among others.

### B. Financial Reporting Entity

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, part of the Commonwealth of Puerto Rico (Primary Government). Because PRDE is for financial reporting purposes, part of the Commonwealth, its financial data is included as part of the Commonwealth of Puerto Rico financial statements. PRDE accompanying financial statement is issued solely to comply with the Single Audit Act Amendments of 1996 (P.L. 104-156) and for the information and used of PRDE's management, and Federal awarding agencies and pass-through entities.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Financial Statement – Measurement Focus and Basis of Accounting

PRDE's accompanying Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds is prepared using the cash-basis of accounting, which is a special purpose framework other than generally accepted accounting principles in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This cash-basis of accounting differs from GAAP primarily because revenues (cash receipts) are recognized when received in cash rather than when earned and susceptible to accrual, and expenditures (cash disbursement) are recognized when paid rather than when incurred or subject to accrual. The amounts reported as cash receipts are those received during the fiscal year 2019-2020. No accrual is recognized.

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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

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

The PRDE reports the following major governmental funds:

- **General Fund** – This is the main operating fund of PRDE and is used to account for all financial resources except those required to be accounted for separately.
- **Title I Grants to Local Educational Agencies Fund** – This fund is used to account for federal financial assistance programs restricted to help LEAs and schools improve the teaching and learning of children failing, or most at-risk of failing, to meet challenging state academic standards.

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

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

- **General Government** – This function is used to account for resources and expenditures related to the educational and administrative management of the System, through rules, regulations, public policy guidelines and evaluation of academic and administrative processes at all levels. All the educational and administrative procedures that are carried out are framed in the mission of the educational system, which is to guarantee a free and non-sectarian education, which develops the capacities and talents of all students so that they are productive, independent citizens, lifelong learners, respectful of the law, the environment and capable of contributing to the common welfare. The primary objective of this function is to achieve the effective and agile articulation of the administrative and fiscal systems in relation to the academic goals through systemic processes of institutional strengthening.
- **Vocational and Technical Education** – This function is used to account for resources and expenditures associated with the preparation of human resources to strengthen the economic development of Puerto Rico. Its philosophy focuses on the preparation of individuals, who possess the occupational, technical, basic academic, ethical, civic and employability skills that allow them to acquire a job, keep it and progress in it so that they can contribute effectively to society. The function has over 90 occupational and technical courses in seven study programs that impact 137 occupational schools, both at the secondary and post-secondary levels.
- **Community Schools** – This function is used to account for resources and expenditures associated with all educational and academic services offered in public schools from "kindergarten" to twelfth grade, except the services of the Special Education Program and the Vocational and Technical Education Program. The services are aimed at achieving the optimal integral development of each student in all phases of their training and at all levels of the educational system.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

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

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

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

- *Food Services for Students* – This function is used to account for resources and expenditures to provides food services to students to promote the development of all participants in nutrition programs. It is also account for managing the following seven services: school breakfast, school lunch, summer food, food for child and adult care, distribution of donated federal food, special milk for children, and nutrition education and training.
- *School's Quality of Life and Drug Free* – This function is used to account for resources and expenditures to provides activities aimed at promoting the reduction in incidences of violence and the use of drugs, alcohol, tobacco and weapons in our schools.
- *Adult Education* – This function is used to account for resources and expenditures related to provide all 16-year-olds or adults, who have not started or completed their studies, educational services to respond to their needs and interests, diversifying the offerings with flexible hours and alternatives that allow them to develop their academic training. This function is made up of: Basic and Secondary Education, Conversational English, Exams, Diplomas and Certifications Unit, Literacy Project, Youth Institutions and Integrated Services Program for Communities. It is also account, through competitive proposals, qualified as eligible providers offer services in day, evening, and Saturday adult education schools. These can be located in community schools of the Department of Education, Public and Private Institutions of proven educational efficiency. In addition, in community-based organizations of proven educational efficiency, correctional and rehabilitation institutions and duly accredited institutions of higher education. Also, they can be located in the facilities of public and municipal agencies, consortia of organizations of proven efficiency with experience in andragogy and in any other accredited entity that provides educational services for literacy up to the fourth year of high school.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – continuation

- *Technological Institutes* – This function is used to post resources and expenditures related to the operation as higher-level university institutions as approved by the Puerto Rico Board of Education. The purpose of this function is to account for the Technological Institutes, that originally, was to offer post-secondary level courses in technical fields. Later, courses in the areas of business education and health-related occupations were added. Its purpose is to prepare individuals at the postsecondary level who possess the occupational, technical, basic academic, ethical, citizenship and employability skills that allow them to acquire a job, keep it and develop in it. The function has four Technological Institutes and a Specialized School of Stamping and Tooling. These programs offer their students the opportunity to participate in internships in the industry, in such a way that they integrate theoretical and practical knowledge to achieve optimal development in their graduates.
- *Auxiliary Services and Technical Assistance* – This function is used to account for resources and expenditures related to fiscal, organizational, planning and educational and administrative evaluation matters. It also offers advice to all programs on the use of their financial and human resources.
- *Institute for Administrative Training and Counseling to Schools* – This function is used to account for resources and expenditures related to trainings and the administrative and teaching processes that promote and strengthen the proper functioning of the schools and districts of Puerto Rico. Efforts are directed at training, advising, and supporting Regional Directors, Superintendents, Assistant Superintendents, and School Directors.
- *COVID-19 Internal Economic Incentive* – This function is used to account for resources and expenditures related to COVID-19 received during fiscal year.
- *Public Schools Maintenance* – This function is used to account for resources and expenditures related to the Office for the Improvement of Public Schools of Puerto Rico (OMEPE). Through Joint Resolution No. 3 of August 28, 1990, as amended, the OMEPE was created, attached to the Department of Education, to develop an accelerated program of repair and beautification of school facilities and the purchase of books, desks, materials and teaching equipment for the teaching-learning process.

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

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

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

### *Notes to Financial Statement*

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

### **B. Stewardship, Compliance, and Accountability**

#### *Budgetary Information*

The PRDE's budget is integrated within the general budget of the Commonwealth. The budget is adopted in accordance with a statutory basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Cash receipts are generally recognized when cash is received for federal financial assistance programs or other grants that are received from sources other than the Commonwealth. 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 for budgetary expenditures are generally recorded when the related payment, purchase order or contract is recorded as an encumbrance. For payroll and related payments, the cash disbursement is recorded on the effective date of the payroll being processed.

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

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

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

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

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.

**C. 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.

**D. 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.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

### E. Operating 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, 2020, these payments for lease agreements amounted to approximately \$71.3 million. Additional rent paid by the PRDE for the leasing of its central offices and other warehouses was approximately \$13.7 million. Information of the future minimum rental payments required under operating leases was not available.

### F. Risk Financing

The Commonwealth’s Secretary of the Treasury is responsible of assuring that the PRDE’s property is properly insured. Annually, 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.

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

PRDE obtains workers compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Cost of insurance allocated to PRDE and deducted from the state appropriation for the year ended June 30, 2020 amounted to \$6,163,000.

PRDE obtains unemployment compensation, non-occupational disability, and drivers’ insurance coverage for its employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth of Puerto Rico (DOLHR). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because work or employment-related accidents or non-occupational disability and drivers’ insurance premiums are paid to DOLHR on a cost reimbursement basis. Total paid during fiscal year ended June 30, 2020 amounted to \$3,868,413.

### G. Accounting for Retirement Plans Costs

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

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

The PRDE employees participates in two different pension plans: the Teachers Retirement System ("TRS") and the Employees' Retirement System ("ERS") (see Note 9).

### H. Other Postemployment Benefits

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

In addition to the pension benefits described in Note 7, the Commonwealth provides other retirement benefits, such as Christmas Bonus, and postemployment healthcare benefits (OPEB) for its retired employees in accordance with local law. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth. There are no member or employer contributions on behalf of the MIPC. This benefit is financed on a pay-as-you-go basis from the General Fund of the Commonwealth of Puerto Rico (see Note 10).



### 3. GOING CONCERN

The discussion in the following paragraphs regarding Commonwealth, including PRDE, financial and liquidity risks provide 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 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.

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 this day, Puerto Rico still faces the longstanding effect of these atmospheric events and the reconstruction efforts hasn't finished.

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 during the academic year 2018-2019.

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 Puerto Rico's Department of Education, two-years post-Hurricane María, only 292,518 students enrolled in public schools, when compared to 307,282 enrolled during school year 2018.

**3. GOING CONCERN** – continuation

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, as amended) 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. 2-2017 established FAFAA as the Commonwealth entity responsible for carrying out the roles inherited from the GDB along with additional duties and powers, which include, among other things: (i) oversight of the Commonwealth budget; (ii) an administrative presence on every board or committee where the GDB president is currently a member; (iii) authority to conduct audits and investigations; and (iv) authority to freeze budgetary items, appoint trustees, redistribute human resources, and change procedures.

On January 26, 2017, Act No. 4 of 2017, it was introduced several human-capital and labor reforms to improve Puerto Rico's competitiveness and foster economic development, while relaxing legal requirements for hiring and retaining employees. Specifically, Act No. 4-2017 (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. 5-2017 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. 5-2017 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. 5-2017 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. 5-2017 emergency period to August 1, 2017. On July 19, 2017, the Legislature enacted Act No. 46-2017, which further extended the Act No. 5-2017 emergency period through December 31, 2017.

Act No. 46-2017 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. 8-2017, 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 agencies which prior to the enactment of Act No. 8-2017, these agencies operated as separate employers, with different administrative divisions and wages for the same occupations.

continue

### 3. GOING CONCERN – continuation

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. 26-2017, 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.

For the fiscal years 2019-2020 and 2018-2019, the PRDE had a recommended budget of \$2,398,500,000 and \$2,582,931,000 from the General Fund, respectively, which represents a decrease of approximately \$184,431,000. These appropriations include approximately \$1,053,436,000 and \$1,011,883,950, respectively, to pay for existing pensions under the PayGo system.

Given the fact that budget appropriation for the PRDE has historically represented a significant portion of the total Commonwealth General Fund budget, as a 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. INDIRECT COST RATE PROPOSAL

Generally, each year, the PRDE submits an indirect cost rate proposal for approval by the United States Department of Education ("the USDE"), the Audit Cognizant Agency. On December 4, 2020, the USDE entered into an Indirect Cost Rate Agreement No. 2020-173 with the PRDE which replaced the previous agreement No. 2020-605. This agreement includes final rates which became effective on July 1, 2017, until June 30, 2018 and also includes provisional rates, covering the period under audit, beginning on July 1, 2018 until June 30, 2021. The rates within the Agreement for FY2020 were 3.1% for school lunch programs and 3% 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.

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

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

### 6. FUND ADVANCES

PRDE receives fund advances from the Treasury Department of Puerto Rico for the interim financing of Federal programs, as authorized by Act No. 21-1979. This Act establishes that all fund advances made will be reimbursed to the General Fund of the Commonwealth's Treasury as the corresponding Federal funds are received. During the fiscal year ended June 30, 2020, funds were advanced to PRDE for this purpose.

**7. LEASE COMMITMENTS**

PRDE is obligated under certain leases accounted for as operating leases. Operational leases not granted property rights or tenant obligations; therefore, neither the assets nor liabilities of leasing arrangements are reflected in the accounting records. Most of the property is leased to the Public Buildings Authority of Puerto Rico, a component unit of the Commonwealth of Puerto Rico. Rent paid during the year that ended on June 30, 2020 under these lease agreements amounted approximately to \$71.3 million. The rental agreements and payments are controlled by the Puerto Rico Office of Management and Budget. Accordingly, information about payments for rent under operating leases future minimum was not available. This amount should be approximately the same expenditures in the following five fiscal years.

**8. RELATED PARTY TRANSACTIONS**

The PRDE as part of its regular operations has transactions with other governmental institutions for different type of services such as electric power, water and sewer, and school's building leases. Most significant related party transactions for the year ended June 30, 2020, are described below:

| <u>Entity Name</u>                       | <u>Type of Service</u>   | <u>Amount</u>                |
|--|--------------------------|------------------------------|
| Puerto Rico Aqueduct and Sewer Authority | Water and Sewer Service  | \$ 29,291,793                |
| Puerto Rico electric Power Authority     | Electric Power Service   | 27,749,498                   |
| Public Building Authority                | School's Building Leases | <u>71,298,000</u>            |
| <b>Total</b>                             |                          | <b><u>\$ 128,339,291</u></b> |

**9. RETIREMENT PLANS**

***Description of the Plans***

**Teachers Retirement System ("TRS")**

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

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

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

All active teachers of 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.

**9. RETIREMENT PLANS – continuation**

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 No. 160-2013, as modified by the April 11, 2014 decision of the Puerto Rico Supreme Court are as follows: (i) Active participants as of July 31, 2014 continue to participate in the defined benefit pension plan; (ii) Starting August 1st, 2014, the defined benefit pension plan was closed for future participants and they contribute to a defined contribution pension plan; (iii) The retirement age for new employees hired on or after August 1st, 2014 is increased to age 62; (iv) The employee contributions for employees hired on or after August 1st, 2014 is increased to 10% from August 1st, 2014 to June 30, 2017, 13.12% from July 1st, 2017 to June 30, 2020, and 14.02% from July 1st, 2020 and thereafter; (v) Special benefits payable to active participants that retire on or before July 31st, 2014 will be reduced and (vi) Postemployment Healthcare Benefits will be eliminated for future retirees.

The Plan members of the TRS hired on or before July 31, 2014 were eligible for retirement, death, and disability benefits. Benefits vest after completion of a given number of years of credited service based on age. Benefits are determined by the application of stipulated benefit ratios to the members' average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by TRS. The annuity for which a plan member was eligible is limited to a minimum of \$400 per month and a maximum of 75% of the average compensation.

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

Employer contributions to TRS are 9.5% of covered payroll for the fiscal year beginning July 1, 2011. For the next fiscal year effective July 1, employer contributions will increase annually by 1%. For the next five fiscal years, employer contributions will increase annually by 1.25%, reaching on employer contributions rate of 19.75% effective July 1, 2020. Effective July 1, 2021 and later fiscal years, the employer contributions rate will be 20.25%. The employer contribution rate for fiscal year 2019 was 8.5% pursuant to Act No. 160-2013 and Circular Letter No. 1300-14-18 issued by the Treasury Department.

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

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

Prior to August 23, 2017, ERS administered different benefit structures pursuant to Act No. 447-1951, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program ("System 2000") and a defined contribution hybrid program. Benefit provisions vary depending on member's date of hire. Membership was mandatory for all regular, appointed, and temporary employees at the date of employment.

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

continue

**9. RETIREMENT PLANS** – continuation

Members who had entered the Employees Retirement System before January 1, 2000 participated in a defined benefit program. Members who began to participate prior to April 1, 1990 were entitled to the highest benefits structure, while those who began to participate on or after April 1, 1999 were subject to a longer vesting period and a reduced level of benefits, as provided by Act No. 1 of February 16, 1990 (“Act No. 1-1990”).

In 1999, Act No. 447-1951 was amended to close the defined benefit program for new participants and, prospectively, establish a new benefit structure similar to a cash balance plan (this new benefit structure is referred to as System 2000). Members who entered participate solely in System 2000. Act No. 3-2013 amended the law to eliminate the lump sum distribution alternative and substitute it for a life annuity payable to the System 2000 Participant. System 2000 Participants do not benefit from any employer contributions. Instead, employer contributions made on account of System 2000 Participants were used to reduce the accumulated unfunded pension benefit obligation of the ERS. System 2000 is not a separate plan as there are no separate accounts for System 2000 Participants. Contributions received from System 2000 Participants were pooled and invested by the ERS together with the assets corresponding to the defined benefit structure of Act No. 447-1951 and Act No. 1-1990 and the defined contribution structure of System 2000, as amended by Act No. 3-2013, were paid from the same pool of assets of the ERS.

Retirement and related benefits provided by the ERS and required contributions to the ERS by employers and employees, are determined by law rather than by actuarial requirements. Effective July 1, 2013, all participants contributed a minimum of 10% with no maximum restriction of their gross monthly salary. Commencing in fiscal year 2012, PRDE shall pay a contribution of 10.275% of the employees’ gross salary and increased 1% per year until fiscal year 2016 and 1.25% per year until fiscal year 2021. The employer contribution rate for fiscal year 2019 was 18.025%.

The ERS provided basic benefits under the defined benefit program principally consisting of a retirement annuity and death and disability benefits (collectively referred to herein as Basic System Pension Benefits). The ERS also administered benefits granted under various special laws that have provided additional benefits for the retirees and beneficiaries (collectively referred to herein as System Administered Pension Benefits). The System Administered Pension Benefits include, among others, additional minimum pension, death and disability benefits, ad-hoc cost-of-living adjustments and summer and Christmas bonuses. Act No. 3-2013 amended the various laws providing some of these System Administered Pension Benefits to reduce some of the amounts payable to existing retirees while eliminating the benefits for all future retirees.

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

## 9. RETIREMENT PLANS – continuation

The incentives provided by the program include a compensation equal to sixty percent (60%) of the employee's average compensation as of December 31st, 2015, while they participate in the Program; the payout of unused vacation and sick leaves, taking into account the limit established in Act No. 66-2014 and exempt from taxation, and the payment of employer contributions on account of Social Security and Medicare, and to keep their health insurance coverage or to continue receiving their employer contribution for the health insurance under the same terms and conditions as if he/she were an employee, for a term of two (2) years. Moreover, this Program provides for the employer to continue making both individual and employer contributions to the Retirement System for Employees of the Government of the Commonwealth of Puerto Rico, thus guaranteeing an increase in their future retirement annuity, which shall never be less than fifty percent (50%) of their average compensation as of June 30th, 2013, and in the case of the members of the Puerto Rico Police, as defined in Act No. 53-1996, as amended, it may reach up to sixty percent (60%) of the average compensation as of June 30t, 2013, by combining frozen contributions as of June 30, 2013 and the annuity of the Defined Contribution Hybrid Program. As of June 30, 2020, the PRDE made payments of \$61.3 million as a result of this Program.

### ***Pay-As-You-Go Funding***

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

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

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

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

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

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

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

continue

## 9. RETIREMENT PLANS – continuation

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

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

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

### ***Pension Plan Fiduciary Net Position***

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

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

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

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

## 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note 9, the Commonwealth provides other retirement benefits, such as Christmas Bonus, and healthcare benefits for its retired employees in accordance with local laws. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth.

continue



**10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation**

***Healthcare Benefits***

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

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

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

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

***Christmas Bonus Benefits***

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

**11. COMMITMENTS AND CONTINGENCIES**

***A. Federal Awards***

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

The Report on Compliance with Requirements Applicable to Each Major Federal Award Program and on Internal Control over Compliance in Accordance with OMB Uniform Guidance for the year ended June 30, 2020, disclosed several instances of noncompliance with applicable laws and regulations that were considered to be material weaknesses. Of the Federal expenditures authorized for the fiscal year 2019-2020, the auditors determined that cost amounting \$96,948 are disallowed.

continue

11. COMMITMENTS AND CONTINGENCIES – continuation

**B. Special Conditions**

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.

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

USDE stated in this communication that PRDE had not been able to demonstrate that it had the capacity to ensure fiscal management of Department grant funds to ensure compliance with Federal grant requirements and fiscal accountability without the use of a third-party fiduciary agent (TPFA). Further, because the deficiencies in fiscal management of Department grant funds extend beyond PRDE, in light of the central management of funds through the Puerto Rico Department of Treasury (Hacienda) and the recent history of financial instability in Puerto Rico, the TPFA was also necessary to ensure compliance with Federal grant requirements and fiscal accountability for Department funds awarded to Puerto Rico offices and agencies in addition to PRDE.

**C. Every Student Succeeds Act**

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

continue

**11. COMMITMENTS AND CONTINGENCIES** – continuation

**D. 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.

**E. Litigation**

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

**F. Third-Party Fiduciary Agent**

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

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

**G. Those Charged with Governance**

On July 10, 2019, a federal authority filed criminal charges against the former Secretary of the PRDE, Julia B. Kelleher. 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.

Subsequently, on January 15, 2020, the U.S. Attorney for the District of Puerto Rico, W. Stephen Muldrow, announced that Julia B. Kelleher, 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.

continue

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

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

### PROMESA Overview

#### *Background*

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

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

Also, before PROMESA was enacted, Puerto Rico had passed the Puerto Rico Corporation Debt Enforcement and Recovery Act (the "PR Recovery Act") in 2014. The PR Recovery Act would have enabled certain of Puerto Rico's instrumentalities to adopt a recovery or restructuring plan for their debt. However, in *Puerto Rico v. Franklin Cal. Tax-Free Trust, et al.*, 136 S. Ct. 1938 (2016), the United States Supreme Court held that the PR Recovery Act was invalid because it was preempted by the United States Bankruptcy Code, 11 U.S.C. §§ 101 et seq., as amended (the "Bankruptcy Code"). In sum, the Supreme Court found that the Bankruptcy Code applies to Puerto Rico by including the territory within the definition of a "State" (except in the case of Puerto Rico for purposes of determining whether a State's municipalities may be debtors thereunder). The Court then concluded that the PR Recovery Act was preempted by a provision of the Bankruptcy Code prohibiting States from enacting their own bankruptcy legislation.

### PROMESA

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

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

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

continue

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

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

**Conditions for Termination of the Oversight Board**

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

PROMESA is specific in terms of how and when the Oversight Board can be terminated. The two provisions, found in Section 209 of PROMESA, that define when the Oversight Board can be dissolved, were incorporated into the federal law to ensure the board disappeared, for good, once Puerto Rico's financial outlook stabilized and better financial management processes have been put in place.

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

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

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

***Sustainable Debt Restructuring***

The Oversight Board has and is following a "once and done" approach to the restructurings, to ensure Puerto Rico will not be insolvent again. Together with the Government of Puerto Rico, the Oversight Board has made substantial progress in adjusting Puerto Rico's debt, the largest debt restructuring in the history of the municipal bond market. The restructuring of more than a third of the outstanding debt has already been completed, totaling \$27 billion, Plan Support Agreements have been announced for \$35 billion in claims and over \$50 billion in pension liabilities.

continue

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

In May 2017, the Puerto Rico Government and the Government Development Bank (GDB) signed a Restructuring Support Agreement (RSA) with a significant portion of GDB creditors to restructure GDB's debt under PROMESA's Title IV. The RSA, as amended in April 2018, reduced about \$5 billion of debt to about \$3 billion, reducing the face value of claims by 45%. The debt payments are secured by GDB cash flow from certain legacy assets without recourse to the Puerto Rico Government. This restructuring cushioned municipalities by offsetting the loans they owed to the GDB by the full amount of their deposits at GDB.

In February 2019, the U.S. District Court approved the Plan of Adjustment for the Puerto Rico Sales Tax Financing Corporation (COFINA), the first debt restructuring completed under PROMESA's Title III. It reduced COFINA debt by \$6 billion, from \$18 billion to \$12 billion. Furthermore, it reduced debt service payments by 32%, saving the people of Puerto Rico approximately \$17.5 billion that will now be available to support the financial needs of the Commonwealth.

In August 2019, the Puerto Rico Aqueduct and Sewer Authority (PRASA) and the Government of Puerto Rico reached an agreement with the U.S. Environmental Protection Agency (EPA) and U.S. Department of Agriculture (USDA) to a consensual modification of about \$1 billion of outstanding loans under PROMESA's Section 207. This agreement lowers PRASA's debt service payments on the U.S. Government program loans by about \$380 million over the next 10 years and eliminates approximately \$1 billion in guaranty claims against the Puerto Rico Government. Additionally, it provides PRASA with access to \$400 million in new federal funding through various clean water programs over the next five years to support PRASA's ongoing effort to improve water quality and safety for the people of Puerto Rico.

On March 8, 2021, the Oversight Board filed an amended Plan of Adjustment (POA) to restructure approximately \$35 billion of debt and other claims against the Commonwealth of Puerto Rico, the Public Buildings Authority (PBA), and the Employee Retirement System (ERS); and more than \$50 billion of pension liabilities. The amended plan, filed with the U.S. District Court for the District of Puerto Rico, provides a path to exit bankruptcy as early as the end of calendar year 2021 and creates a foundation for Puerto Rico's recovery and economic growth.

An agreement in principle has been reached with certain monoline bond insurers with clawback claims. Efforts to transform the agreement in principle into a binding agreement are ongoing. An agreement has been reached with holders of Employee Retirement System bonds as well. Mediation continues with holders of general unsecured claims, certain other monoline bond insurers with clawback claims, and creditors holding other claims against the Government of Puerto Rico.

Key to the sustainability of any debt restructuring is the growth of the Puerto Rico economy. The Oversight Board has stressed for the past five years that returning to economic growth requires structural reforms to enhance the reliability of power; improve educational outcomes, labor market participation and labor productivity; enhance the ease of doing business on the Island; and generate more effective returns on capital investments and infrastructure. All of these aim to strengthen Puerto Rico's competitiveness in the global marketplace, attract new private capital, the creation of jobs, and ultimately a better life for the residents of the Island.

***Timely Financial Reporting***

The requirement related to timely financial reporting includes expectations that the Government publish past due audited financials begin issuing audited financial statements on a best practice basis (e.g., issue audited financial statements within six months after the fiscal year ends).

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

The Government of Puerto Rico has yet to produce long past due Annual Comprehensive Financial Report (ACFRs) for FY2019 and FY2020. The Oversight Board has continuously encouraged the Government to finalize and publish its past due audited financial statements, including spending time at two recent public board meetings on the topic and providing increased funding for required personnel at Hacienda. The Commonwealth published fiscal year 2017 audited financial statements on August 31, 2020, taking more than 1,158 days (~38 months) to issuance. According to a study by the Governmental Accounting Standards Board (GASB), state governments issued their annual audited financial reports (ACFRs) on average 189 days after fiscal year-end during 2012-2014 and 199 days during 2015-2017. Best practice calls for annual comprehensive financial reports (ACFRs) to be made public approximately 180 days or 6 months after the close of the fiscal year. Some states, like Michigan, have taken less than 100 days to release their ACFRs.

To achieve timely financial reporting the Government must, among other things, provide a detailed timeline and implementation plan, positioning Hacienda to successfully oversee the publication of the ACFRs, and signing a multi-year master audit contract. Perhaps most importantly, the Government must transition to implementing monthly closing procedures over its books and records and implement strict monitoring over the process with consequences for agencies that fall behind. Without implementing these changes, ACFR issuance will continue to be delayed and unpredictable.

As seen in *Exhibit 8*, the Government is behind on meeting many of these requirements, but with steadfast political will and leadership, the Oversight Board is convinced that these objectives can be reached, past due ACFRs can be issued within the next two years, and a system can be put in place that assures continued timely issuance as expected by the credit markets.

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

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

The Government is expected to develop and implement a budget in accordance with modified accrual accounting standards for four consecutive years, according to accounting practices recommended by the GASB for municipal financial statements, including by publishing ACFRs. There are numerous benefits of transitioning from cash accounting to modified accrual accounting. A modified accrual accounting method is more conservative since it requires recognition of revenues when measurable and promised payments when liabilities are incurred. Consequently, the books and records will present a more realistic picture of spending and help Puerto Rico avoid overspending and present an accurate financial picture to Government managers, taxpayers and other stakeholders. Furthermore, it would eliminate many one-time maneuvers and lead to genuinely balanced budgets once all the debt restructurings are consummated. The transition to modified accrual budgeting was one element that led to New York City's financial recovery in the 1970's, helping to establish stricter budgetary discipline on the City.

***Four Years of Balanced Budgets According to Accrual Based Accounting Method***

Before PROMESA, Puerto Rico had a history of overstating revenues and understating, misstating, or not stating all of its expenditures in a given year. This lack of budgetary control enabled budgets which appeared to be balanced consistent with the Puerto Rico Constitution's requirements, to cause deficits and force borrowing, and resulted in the situation the Government faces today.

The key principles that will need to be met for the Government to achieve this requirement are the formulation of an accrual based budget, better monitoring of revenue and expenses, integration of the payroll systems, maintenance of an accounts payable ledger, and registration of purchase orders and budgeting for all other funds, not just the General Fund.

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

To fully implement accrual budgeting, the Government would need to adopt policies and train employees to record expenses, make sure adjusting entries are communicated and coordinated across agencies, and shift to having accruals and interagency reconciliations automated. Furthermore, revenues and expenditures must be periodically reviewed against the forecast to respond to changes and there must be detailed resolution certifications and expense system registration. Additionally, payroll must be adequately tracked, controlled, and integrated. Accounts payable must be automated and follow clear procedures. Purchase orders and other encumbrances must be booked for the entire year, at the beginning of the year, and as many special revenue funds as possible must be eliminated.

The Government has unfortunately not yet demonstrated meaningful progress in many of the key requirements for the termination of the Oversight Board. As shown in **Exhibit 8**, rapid progress will be needed across a number of dimensions to meet the key requirements under PROMESA.

**EXHIBIT 8: PROGRESS TOWARDS ACHIEVING KEY REQUIREMENTS FOR THE TERMINATION OF THE OVERSIGHT BOARD**

| Requirement  | Detail                               | <span style="color: red;">●</span> Not started <span style="color: yellow;">●</span> Some Progress <span style="color: green;">●</span> Completed  | Current Progress |
|--|--------------------------------------|--|------------------|
| Complete Sustainable Debt Restructuring                          | Exchanged/ New Debt                  | <ul style="list-style-type: none"> <li>Exchanged / new bonds trading well in the public markets</li> </ul>   | ●                |
|  | Muni bond market/ buyers             | <ul style="list-style-type: none"> <li>Interest from traditional, institutional municipal bond buyers</li> </ul>   | ●                |
|  | Investors                            | <ul style="list-style-type: none"> <li>Evidence investors ready to invest in Puerto Rico again</li> </ul>  | ●                |
| Timely Financial Reporting                                       | Timeline and Action Plan             | <ul style="list-style-type: none"> <li>Provide detailed timeline and implementation plan for issuance financial statements</li> </ul>  | ●                |
|  | Financial reporting division         | <ul style="list-style-type: none"> <li>Adequately position Hacienda's financial reporting division to oversee completion of all financial reporting, including component units</li> </ul>  | ●                |
|  | Multiyear master audit contract      | <ul style="list-style-type: none"> <li>Secure multi-year contracts with auditors and other essential contractors in conformance with best practices</li> </ul>   | ●                |
|  | Implement monthly closing procedures | <ul style="list-style-type: none"> <li>Short-term: Implement / monitor a rigorous process for circular letters, administrative determinations, procedures, and regulations (manual closings)</li> <li>Medium-term: Implement ERP system (quarterly closing procedure)</li> <li>Longer-term: ERP system fully implemented (monthly closing procedures)</li> </ul> | ●                |
|  | Strict monitoring and publish delays | <ul style="list-style-type: none"> <li>Set up strict monitoring and escalation procedures with consequences and published schedules noting agency and component unit delays</li> </ul>   | ●                |
| Budgets in accordance with modified accrual accounting standards | Accrual Budgeting                    | <ul style="list-style-type: none"> <li>Adopt policies and train employees to book budget and book expenses</li> <li>Adjusting entries are communicated and coordinated across agencies</li> <li>Accruals and interagency reconciliations automated</li> </ul>  | ●                |
|  | Revenue/Expenses                     | <ul style="list-style-type: none"> <li>Incorporate a periodic review of revenues and expenditures against the forecast to respond to changes</li> <li>Detailed resolution certifications and expense system registration</li> </ul>  | ●                |
|  | Payroll Systems                      | <ul style="list-style-type: none"> <li>Appropriations for termination of payroll accruals</li> <li>Integrate systemwide payroll system into a financial reporting system</li> </ul>  | ●                |
|  | Accounts Payable                     | <ul style="list-style-type: none"> <li>Maintain government wide monthly accounts payable procedures</li> <li>Automate process and journal entries</li> </ul>   | ●                |
|  | Purchase Orders                      | <ul style="list-style-type: none"> <li>Book encumbrances for entire year when contract is approved</li> <li>Multi-year contract encumbered at the beginning of subsequent years</li> </ul>   | ●                |
|  | Other Funds                          | <ul style="list-style-type: none"> <li>Eliminate as many special revenue funds as possible; better maintained through annual General Fund appropriation procedures</li> <li>Track and record all expenses and standardize chart of accounts</li> </ul>   | ●                |
| Implementing a balanced budget                                   | Payroll spending                     | <ul style="list-style-type: none"> <li>Connect time and expense to payroll systems</li> </ul>  | ●                |
|  | Closing of books                     | <ul style="list-style-type: none"> <li>Reconcile bank balances and monies held outside of the TSA</li> <li>Issue consistent systemwide guidance</li> </ul>   | ●                |
|  | Real time spending reports           | <ul style="list-style-type: none"> <li>Perform quarterly budget to actual review by senior leadership</li> <li>Issue public reporting and strategic guidance to stay within means</li> </ul>   | ●                |
|  | Visibility into all funds            | <ul style="list-style-type: none"> <li>Gain visibility into special revenue funds and federal funds</li> <li>Require reporting and sweep back unused general fund appropriations</li> </ul>  | ●                |
|  | Financial accounting systems         | <ul style="list-style-type: none"> <li>Integrate financial systems</li> <li>Ensure reporting is consistent across all agencies</li> </ul>  | ●                |

continue



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

***Fiscal Plans, Budgets, and Other Oversight Board Tools:***

Under PROMESA, covered territorial instrumentalities/entities can be required by the Oversight Board to prepare and submit annual fiscal plans, who then reviews and either rejects or certifies them. The Oversight Board certifies fiscal plans and budgets to achieve PROMESA's goals to provide a method to achieve fiscal responsibility and access to the capital markets. The Oversight Board then tracks Government implementation of the fiscal plans to ensure compliance.

The certification and timely implementation of fiscal plans and balanced budgets are invaluable tools to achieve fiscal responsibility and restore Puerto Rico's access to the capital markets. Among other things, the certified fiscal plans and budget provide for estimates of revenues and expenditures in conformance with agreed accounting standards; funds essential public services; provides adequate funding for public pension systems; provides for the elimination of structural deficits; improves fiscal governance, accountability, and internal controls; and provides for capital expenditures and investments necessary to promote economic growth. Fiscal plans provide a route to direct the economy and finances of the Government of Puerto Rico towards economic growth and fiscal accountability. This is crucial for Puerto Rico to avoid repeating the mistakes of the past.

To ensure that covered entities deliver against fiscal plan measures, the Oversight Board has a variety of potential tools available, including: Setting Budgets; Budget and Fiscal Plan Compliance; Approval and Review of Contracts, Legislation, Executive Orders, Administrative Orders, Rules, and Regulations; Recommendations; Public Hearings; Implementation Tracking with Monthly and Quarterly Reporting; Working Group Meetings; Stakeholder Engagement; Policy Research and Data Analysis; and Publication of Documents.

**Fiscal Plan – 2021**

On April 23, 2021, the Oversight Board certified the New Fiscal Plan of the Commonwealth. **The 2021 Fiscal Plan has also allocated strategic investments to enhance economic growth, enable government response to emergencies, and enhance frontline service delivery.** Fiscal Plans have included funds for an Earned Income Tax Credit to encourage more formal labor market participation on the Island and needs-based scholarships for UPR to ensure every student on the Island can access higher education. To support frontline service delivery, Fiscal Plans have included raises for teachers, principals, firefighters, and police officers to ensure salaries for these critical frontline roles are more competitive. Strategic capital investments have been made in hospitals, correctional institutions, public safety equipment, and other infrastructure. After each natural disaster and crisis, the Oversight Board has worked with Government to make funds available to help individuals, businesses, and agencies navigate the crisis and recover, including pausing most fiscal measures for FY2021 to enable agencies to combat the COVID-19 crisis and allowing more time to implement operational changes. Finally, Fiscal Plans have established emergency reserves to enable the Government of Puerto Rico to act immediately to support the people of the Island during crises.

Moreover, to help the Commonwealth rebuild its infrastructure, strengthen its economy and improve the lives of local residents, the 2021 Fiscal Plan includes investments aimed at strengthening the ability of the Island to benefit from the growing importance of technology in every facet of life and business, as well as ensure a qualified, trained work force able to respond to the needs of this ever growing segment of the economy. The 2021 Fiscal Plan allocates \$400 million to incentivize private sector investments in broadband build-out and to improve access to faster speed offerings in underserved areas. These investments should help overcome barriers to broadband expansion and ensure that all residents and enterprises in Puerto Rico benefit from this capacity. It also allocates \$50 million for a 21st century Technical and Business Education Fund to invest in local residents acquiring technical and business skills so that the people of Puerto Rico are able to compete in a global economy. Finally, the sustainability and quality of public services requires a comprehensive civil service reform to resolve the underlying problems and challenges of human resources management in the Government. The 2021 Fiscal Plan outlines a comprehensive plan to improve the civil service, starting with a pilot for financial management personnel.

continue

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

The 2021 Fiscal Plan includes almost \$800 million in investment (FY22- 51) in order to improve strategic human capital planning, recruitment, performance management and evaluations, and succession planning, as well as hiring of additional staff and salary increases for key personnel (where deemed necessary). Civil service reform is critical to address the root causes behind the lack of execution on important initiatives by the Government of Puerto Rico in the past. Without its positive sustainable change is not possible.

In addition to these investments, the Fiscal Plan focuses on improving the responsiveness, efficiency, and affordability of the Government. Fiscal Plans have included a set of fiscal measures that aim to create robust fiscal controls and accountability through the establishment of the Office of the CFO, consolidation and streamlining of agency operations, reduction the ever-escalating costs of Medicaid and pensions, increasing revenue collections through improved compliance, and enhancing the fiscal self-sufficiency of the University of Puerto Rico and municipalities. The Oversight Board has worked hand-in-hand with Government agencies to craft clear pathways for each reform and reduce barriers to change.

These measures include:

- **Creation of Office of the CFO:** Instituting fiscal controls, centralizing fiscal authority, and improving governance, accountability, and transparency over budgets, reform implementation, procurement, and personnel to ensure the Government is an efficient and effective steward of its resources
- **Agency Efficiencies:** Consolidating agencies to leverage valuable human and financial resources; centralizing procurement to achieve greater purchasing power and transparency; and transforming processes and deploying new management practices to deliver better governmental services for substantially lower cost
- **Medicaid Reform:** Taking the necessary steps to curb fraud, waste, and abuse in the healthcare system, ensuring that resources are directed to those in need of health services, and improving health outcomes on the Island
- **Enhanced Tax Compliance and Optimized Taxes and Fees:** Employing new technology and data to broaden the tax base, reducing non-compliance, and improving fairness to boost overall tax revenues while adjusting existing taxes and fees to capture revenues from underleveraged sources
- **Reduction of Appropriations:** Encouraging sound fiscal self-management and revenue generation among municipalities and the University of Puerto Rico by reducing central government appropriations, while meeting the needs of students facing financial challenges with the creation of an independently-managed, means-tested scholarship fund
- **Comprehensive Pension Reform:** Improving the financial stability of public employees through reforms that maintain enough funds to comply with the payment of pension benefits and provide the administration necessary to create a defined contribution plan for employees

### 13. SUBSEQUENT EVENT

#### Employees Retirement System

On September 26, 2019, a 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.

Act 147 of November 8, 2020, better known as “Ley para un Retiro Digno”, was created with the purpose of establishing and standardizing an energetic and vigorous public policy of zero cuts to the pensions of the participants of the retirement systems and the retired persons of the public service of Puerto Rico; create the legal framework necessary for the eventual establishment of a Trust for the Joint Administration of Retirement Systems that ensures the payment of pensions for public servants; provide the public policy that will guide the conversations and representations of the Government of the Commonwealth of Puerto Rico, its municipalities, instrumentalities and agents in any process of restructuring, adjustment, mediation or negotiation of claims against retirement systems, their participants and pensioners; propose a model for the constitution and treatment of different classes of creditors in a Debt Adjustment Plan that conforms to this public policy.

#### Specific Conditions – Federal Fiscal Year 2021

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

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

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

**13. SUBSEQUENT EVENT** – continuation

Extension of Single Audit Submission

As a result of COVID-19, the United States Office of Management and Budget issued a memorandum granting various disaster relief flexibilities to reduce burden for financial assistance. One of these flexibilities was the extension for Single Audit submission. Awarding agencies, in their capacity as cognizant or oversight agencies for audit, should allow recipients and subrecipients that have not yet filed their single audits with the Federal Audit Clearinghouse as of the date of the issuance of this memorandum that have fiscal year-ends through June 30, 2021, to delay the completion and submission of the Single Audit reporting package, as required under Subpart F of 2 CFR § 200.501 to six months beyond the normal due date. No further action by awarding agencies is required to enact this extension. This extension does not require individual recipients and subrecipients to seek approval for the extension by the cognizant or oversight agency for audit; however, recipients and subrecipients should maintain documentation of the reason for the delayed filing. Recipients and subrecipients taking advantage of this extension would still qualify as a "low-risk auditee" under the criteria of 2 CFR § 200.520(a). (2 CFR § 200.501). For the PRDE, such flexibility extends the period for completion and submission from its original due date of March 31, 2021, to September 30, 2021.

The PRDE has evaluated subsequent events through September 29, 2021, the date which the financial statement was available to be issued. No additional subsequent events were identified that should be disclosed or adjusted in the financial statement or its notes.

**END OF NOTES**

**PART II**

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

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

**SCHEDULE OF EXPENDITURES**  
**OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

| <i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>              | <i>Federal CFDA Number</i> | <i>Pass-Through Entity Identification Number</i> | <i>Pass-Through To Subrecipients</i> | <i>Total Federal Expenditures</i> |
|---|----------------------------|--|--------------------------------------|-----------------------------------|
| <b>U.S. DEPARTMENT OF AGRICULTURE:</b>  |                            |  |                                      |                                   |
| Direct Programs:  |                            |  |                                      |                                   |
| Child Nutrition Cluster:  |                            |  |                                      |                                   |
| National School Lunch Program - Food Donation - Commodities (Non-Cash Assistance) | 10.555                     |  | \$ -                                 | \$ 9,974,150                      |
| National School Lunch Program   | 10.555                     |  | 79,801,799                           | 79,801,799                        |
| Summer Food Service Program for Children  | 10.559                     |  | 7,143,807                            | 7,376,595                         |
| COVID-19 Summer Food Service Program for Children                                 | 10.559                     |  | 3,496,488                            | 3,496,488                         |
| Total Child Nutrition Cluster   |                            |  | <u>90,442,094</u>                    | <u>100,649,032</u>                |
| Child and Adult Care Food Program   | 10.558                     |  | 15,576,210                           | 15,758,578                        |
| COVID-19 Child and Adult Care Food Program  | 10.558                     |  | 28,469                               | 28,469                            |
| State Administrative Expenses for Child Nutrition                                 | 10.560                     |  | -                                    | 2,650,154                         |
| Child Nutrition Discretionary Grants Limited Availability                         | 10.579                     |  | 190,092                              | 190,092                           |
| Fresh Fruit and Vegetable Program   | 10.582                     |  | 165,877                              | 165,877                           |
| <b>Total U.S. Department of Agriculture</b>                                       |                            |  | <u>106,402,742</u>                   | <u>119,442,202</u>                |
| <b>NATIONAL ENDOWMENT OF THE HUMANITIES:</b>                                      |                            |  |                                      |                                   |
| Direct Program:   |                            |  |                                      |                                   |
| Grants to States  | 45.310                     |  | 217,565                              | 3,104,172                         |
| <b>Total U.S. National Endowment of the Humanities</b>                            |                            |  | <u>217,565</u>                       | <u>3,104,172</u>                  |

continue

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

**SCHEDULE OF EXPENDITURES**  
**OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

| <i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>  | <i>Federal CFDA Number</i> | <i>Pass-Through Entity Identification Number</i> | <i>Pass-Through To Subrecipients</i> | <i>Total Federal Expenditures</i> |
|---|----------------------------|--|--------------------------------------|-----------------------------------|
| <b>U.S. DEPARTMENT OF EDUCATION:</b>  |                            |  |                                      |                                   |
| Direct Programs:  |                            |  |                                      |                                   |
| Adult Education - Basic Grants to States  | 84.002                     |  | 1,771,110                            | 8,036,115                         |
| Student Financial Assistance Programs Cluster:  |                            |  |                                      |                                   |
| Federal Supplemental Educational Opportunity Grants   | 84.007                     |  | -                                    | 161,876                           |
| Federal Work-Study Program  | 84.033                     |  | -                                    | 157,604                           |
| Federal Pell Grant Program  | 84.063                     |  | -                                    | 7,783,301                         |
| Total Student Financial Assistance Programs Cluster   |                            |  | -                                    | 8,102,781                         |
| Title I Grants to Local Educational Agencies  | 84.010                     |  | -                                    | 266,060,758                       |
| Title I State Agency Program for Neglected and Delinquent Children and Youth  | 84.013                     |  | -                                    | 446,507                           |
| Special Education Cluster:  |                            |  |                                      |                                   |
| Special Education Grants to States  | 84.027                     |  | -                                    | 75,601,101                        |
| Special Education Preschool Grants  | 84.173                     |  | -                                    | 1,901,928                         |
| Total Special Education Cluster   |                            |  | -                                    | 77,503,029                        |
| Impact Aid  | 84.041                     |  | -                                    | 1,527,291                         |
| Career and Technical Education - Basic Grants to States   | 84.048                     |  | -                                    | 13,236,194                        |
| Education for Homeless Children and Youth   | 84.196                     |  | -                                    | 1,214,238                         |
| Twenty-First Century Community Learning Centers   | 84.287                     |  | 13,041,239                           | 13,298,897                        |
| English Language Acquisition State Grants   | 84.365                     |  | -                                    | 2,495,303                         |
| Mathematics and Sciences Partnerships   | 84.366                     |  | -                                    | 45,838                            |
| Supporting Effective Instruction State Grants   | 84.367                     |  | -                                    | 65,231,441                        |
| Grants for State Assessments and Related Activities   | 84.369                     |  | -                                    | 5,722,536                         |
| Student Support and Academic Enrichment Program   | 84.424                     |  | -                                    | 4,707,160                         |
| COVID- 19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) - Student Aid Portion                              | 84.425E                    |  | -                                    | 1,648,800                         |
| Hurricane Education Recovery - Elementary and Secondary Education Hurricane Relief - Immediate Aid to Restart School Operations           | 84.938A                    |  | -                                    | 145,142,571                       |
| Hurricane Education Recovery for Homeless Students and Youth  | 84.938B                    |  | -                                    | 95,506                            |
| Hurricane Education Recovery - Homeless Student's Hurricane Aid   | 84.938C                    |  | -                                    | 19,120                            |
| Hurricane Education Recovery - Elementary and Secondary Education Hurricane Relief - Project School Emergency Response to Violence (SERV) | 84.938G                    |  | -                                    | 736,111                           |
| Hurricane Education Recovery - Emergency Assistance to Institutions of Higher Education Program   | 84.938T                    |  | -                                    | 1,862,576                         |
| Total Hurricane Education Recovery  |                            |  | -                                    | 147,855,884                       |
| <b>Total U.S. Department of Education</b>   |                            |  | <b>14,812,349</b>                    | <b>617,132,772</b>                |

continue



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

**SCHEDULE OF EXPENDITURES  
 OF FEDERAL AWARDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

| <i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>  | <i>Federal CFDA Number</i> | <i>Pass-Through Entity Identification Number</i> | <i>Pass-Through To Subrecipients</i> | <i>Total Federal Expenditures</i> |
|---|----------------------------|--|--------------------------------------|-----------------------------------|
| <b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>  |                            |  |                                      |                                   |
| Direct Program:   |                            |  |                                      |                                   |
| Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance | 93.079                     |  | -                                    | 23,848                            |
| Substance Abuse and Mental Health Services Projects of Regional and National Significance                                 | 93.243                     |  | -                                    | 808,991                           |
| <b>Total U.S. Department of Health and Human Services</b>   |                            |  | -                                    | 832,839                           |
| <b>U.S. DEPARTMENT OF HOMELAND SECURITY:</b>  |                            |  |                                      |                                   |
| Passed-through Central Office for Recovery Reconstruction and Resiliency (COR3):  |                            |  |                                      |                                   |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters)   | 97.036                     | 000-ULGE2-00                                     | -                                    | 7,438,238                         |
| <b>Total U.S. Department of Homeland Security</b>   |                            |  | -                                    | 7,438,238                         |
| <b>Total Expenditures of Federal Awards</b>   |                            |  | <b>\$ 121,432,656</b>                | <b>\$ 747,950,223</b>             |

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

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**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (“the Schedule”) includes the Federal grant activities of the Puerto Rico Department of Education (PRDE) for the year ended June 30, 2020. 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).

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statement. PRDE reporting entity is defined in Note (1) (A) to the financial statement. All Federal financial awards received directly from Federal agency as well as Federal financial awards passed-through other government agencies, if any, are included on the Schedule.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**3. SCHEDULE NOT IN AGREEMENT WITH OTHER FEDERAL AWARD REPORTING**

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

**4. FEDERAL CFDA NUMBER**

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget’s Catalogue of Federal Domestic Assistance.

**5. 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:

| <b>Cluster Title</b>                   | <b>Federal Program</b>                              | <b>Federal CFDA Number</b> |
|--|---|----------------------------|
| 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 States                  | 84.027                     |
|  | Special Education Preschool Grants                  | 84.173                     |

continue

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

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

**7. 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.

**8. NON-CASH ASSISTANCE – COMMODITIES**

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

**9. 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.

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

| <i><b>Federal CFDA<br/>Number</b></i> | <i><b>Name of Federal Program</b></i>         | <i><b>Expenditures in<br/>the Schoolwide<br/>Fund</b></i> |
|---------------------------------------|---|---|
| 84.010                                | Title I Grants to Local Educational Agencies  | \$ 203,806,650  |
| 84.365                                | English Language Acquisition State Grants     | 54,987  |
| 84.367                                | Supporting Effective Instruction State Grants | 53,130,000  |
| N/A                                   | Community School Program - State Funds        | 576,004,580   |
|                                       |   | <u>\$ 832,996,217</u>                                     |

**10. CONSOLIDATED PROGRAM FUNDS**

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

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

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

continue

**10. CONSOLIDATED PROGRAM FUNDS** – continuation

| <i>Federal CFDA<br/>Number</i> | <i>Name of Federal Program</i>  | <i>Expenditures in<br/>the Consolidated<br/>Fund</i> |
|--------------------------------|---|--|
| 84.010                         | Title I Grants to Local Educational Agencies                                    | \$ 20,801,740  |
| 84.013                         | Title I State Agency Program for Neglected and<br>Delinquent Children and Youth | 1,689  |
| 84.287                         | Twenty-First Century Community Learning Centers                                 | 204,758  |
| 84.365                         | English Language Acquisition State Grants                                       | 84,192   |
| 84.367                         | Supporting Effective Instruction State Grants                                   | 1,593,241  |
| 84.424                         | Student Support and Academic Enrichment Program                                 | 59,476   |
|                                |   | <u>\$ 22,745,096</u>                                 |

**11. INDIRECT COST RATE**

The PRDE has elected not to use the 10% de minimis indirect cost rate.

The amount expended includes \$17.8 million claimed as an indirect cost recovery using an approved indirect cost rate of 3.1% for school lunch programs and 3% for all other programs based on salaries and wages, including fringe benefits.

**12. SUBMISSION OF SINGLE AUDIT REPORTING PACKAGE**

The Single Audit reporting package, as defined and required in 2 CFR 200 for fiscal year ended June 30, 2020, could not be submitted in a timely manner because of the effects of the Novel Coronavirus COVID-19. As further discussed in the PRDE's Notes to the Financial Statement included in its audited financial statement for the same year, the PRDE's activities were affected by the Executive Orders issued by the Governor of Puerto Rico.

The Compliance Supplement Addendum released in December of 2020 on page 117 states: "Due to the large size of the COVID-19 programs and the Federal government dependency on single audit reports to assist with proper oversight over these funds, we strongly encourage the auditees and auditors to complete and submit their relevant portions of single audit reporting packages for fiscal year ends, subject to the provisions of the extension described herein, as early as possible prior to the normal due dates of the earlier of thirty days after the receipt of the auditor's reports or nine months after the fiscal year end date. In light of the late issuance of audit guidance for the COVID-19 programs contained in this addendum, awarding agencies, in their capacity as cognizant or oversight agencies for audit, must allow recipients and subrecipients that received COVID-19 funding with original due dates from October 1, 2020, through June 30, 2021, an extension for up to three (3) months beyond the normal due date in the completion and submission of the Single Audit reporting package. No further action by awarding agencies is required to enact this extension.

Further, on March 19, 2021, the OMB issued the M-21-20, stated that: "Awarding agencies, in their capacity as cognizant or oversight agencies for audit, should allow recipients and subrecipients that have not yet filed their single audits with the Federal Audit Clearinghouse as of the date of the issuance of this memorandum that have fiscal year-ends through June 30, 2021, to delay the completion and submission of the Single Audit reporting package, as required under Subpart F of 2 CFR §200.501 to six months beyond the normal due date. No further action by awarding agencies is required to enact this extension. This extension does not require individual recipients and subrecipients to seek approval for the extension by the cognizant or oversight agency for audit; however, recipients and subrecipients should maintain documentation of the reason for the delayed filing. Recipients and subrecipients taking advantage of this extension would still qualify as a "low-risk auditee" under the criteria of 2 CFR § 200.520(a) and (2 CFR § 200.501)".

continue

**13. GENERALLY ACCEPTED GOVERNMENTAL AUDIT STANDARD (GAGAS 2018 REVISION)**

The Yellow Book is used by auditors of government entities, entities that receive government awards, and other audit organizations performing Yellow Book audits. It outlines the requirements for audit reports, professional qualifications for auditors, and audit organization quality control. Auditors of federal, state, and local government programs use these standards to perform their audits and produce their reports.

The 2018 revision of the Yellow Book is effective for financial audits, attestation engagements, and reviews of financial statements for periods ending on or after June 30, 2020, and for performance audits beginning on or after July 1, 2019. Early implementation is not permitted.

**END OF NOTES**



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

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**Honorable Eliezer Ramos**  
**Acting Secretary**  
**Puerto Rico Department of Education**  
**of the Commonwealth of Puerto Rico**  
**San Juan, Puerto Rico**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the **Puerto Rico Department of Education of the Commonwealth of Puerto Rico (PRDE)**, for the fiscal year ended June 30, 2020, and the related notes to financial statement, which collectively comprise **PRDE’s** financial statement, and have issued our report thereon dated September 29, 2021. Our report includes a paragraph indicating that the financial statement only purports to present the cash receipts and cash disbursements attributable to the **PRDE**.

***Going Concern***

**PRDE** is an Executive Agency of the Commonwealth of Puerto Rico (Commonwealth). Our report on the financial statement includes an emphasis-of-matter paragraph describing conditions, discussed in Note 3 to the financial statement, that raised substantial doubt about the Commonwealth’s ability to continue as a going concern.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of **PRDE’s** financial statement will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**Honorable Eliezer Ramos, Acting Secretary  
Puerto Rico Department of Education  
of the Commonwealth of Puerto Rico**

Page 2

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weakness. We did identify certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2020-001 that we consider to be significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether **PRDE's** financial statement are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 finding 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 reformed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CPA DIAZ-MARTINEZ, PSC  
Certified Public Accountants & Consultants  
License Number 12, expires on December 1, 2022

Caguas, Puerto Rico  
September 29, 2021

Stamp No. E459382 of the Puerto Rico Society of Certified  
Public Accountants was affixed to the original report.





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

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

**Honorable Eliezer Ramos**  
**Acting Secretary**  
**Puerto Rico Department of Education**  
**of the Commonwealth of Puerto Rico**  
**San Juan, Puerto Rico**

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

We have audited **Puerto Rico Department of Education of the Commonwealth of Puerto Rico (PRDE)**'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of **PRDE**'s major federal programs for the fiscal year ended June 30, 2020. **PRDE**'s major federal programs are identified in the Summary of Auditors' Result Section of the accompanying Schedule of Findings and Questioned Costs.

***Going Concern***

**PRDE** is an Executive Agency of the Commonwealth of Puerto Rico (Commonwealth). Our report on the financial statement includes an emphasis-of-matter paragraph describing conditions, discussed in Note 3 to the financial statement, that raised substantial doubt about the Commonwealth's ability to continue as a going concern.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants 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.

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

**Honorable Eliezer Ramos, Acting Secretary  
Puerto Rico Department of Education  
of the Commonwealth of Puerto Rico**

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We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of PRDE’s compliance.

***Basis for Qualified Opinion (See the following Table)***

As described in the accompanying Schedule of Findings and Questioned Costs, PRDE did not comply with requirement regarding the following:

| <b>Finding Number</b> | <b>CFDA Number</b>           | <b>Program (or Cluster) Name</b>                        | <b>Compliance Requirement</b>                   |
|-----------------------|------------------------------|---|---|
| 2020-005              | 84.010                       | Title I Grants to Local Educational Agencies            | Allowable Costs/Costs Principles                |
|                       | 84.027                       | Special Education Grants to States                      |   |
|                       | 84.048                       | Career and Technical Education - Basic Grants to States |   |
|                       | 84.367                       | Supporting Effective Instruction State Grants           |   |
| 2020-006              | 10.555;<br>10.559            | Child Nutrition Cluster                                 | Eligibility                                     |
| 2020-010              | 84.027;<br>84.173            | Special Education Cluster                               | <u>Procurement</u> and Suspension and Debarment |
| 2020-011              | 10.555;<br>10.559            | Child Nutrition Cluster                                 | Procurement and <u>Suspension and Debarment</u> |
| 2020-014              | 84.007;<br>84.033;<br>84.063 | Student Financial Assistance Cluster                    | Special Test and Provisions                     |
| 2020-017              | 10.558                       | Child and Adult Care Food Program                       | Subrecipient Monitoring                         |
| 2020-018              | 45.310                       | Grants to States  | Subrecipient Monitoring                         |

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

***Qualified Opinion (See the above Table)***

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 the major federal programs described in the above table for the fiscal year ended June 30, 2020.

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

In our opinion, PRDE complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditors’ Results section of the accompanying Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 2020.

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

Honorable Eliezer Ramos, Acting Secretary  
Puerto Rico Department of Education  
of the Commonwealth of Puerto Rico

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## **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 in the accompanying Schedule of Findings and Questioned Costs as items 2020-008, 2020-009, 2020-015 and 2020-016. 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 are 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 types 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 were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2020-003 through 2020-006, 2020-010 through 2020-012, 2020-014, 2020-017 and 2020-018 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 items 2020-002, 2020-007 through 2020-009, 2020-013, 2020-015 and 2020-016 to be significant deficiencies.

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

**Honorable Eliezer Ramos, Acting Secretary  
Puerto Rico Department of Education  
of the Commonwealth of Puerto Rico**

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PRDE's response to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. 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.



CPA DIAZ-MARTINEZ, PSC  
Certified Public Accountants & Consultants  
License Number 12, expires on December 1, 2022

Caguas, Puerto Rico  
September 29, 2021

Stamp No. E459383 of the Puerto Rico Society of Certified  
Public Accountants was affixed to the original report.

**PART III**  
**FINDINGS AND QUESTIONED COSTS**

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**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

**Financial Statements**

Type of auditor’s report issued on whether the Financial Statement audited were prepared in accordance with special reporting framework:

- Unmodified Opinion
- Modified:
  - Qualified Opinion
  - Adverse Opinion
  - Disclaimer Opinion

Internal control over financial reporting:

- Material weakness (es) identified?  Yes  No
- Significant deficiency (ies) identified?  Yes  None Reported

Noncompliance material to financial statement noted?  Yes  No

**Federal Awards**

Internal control over Major Federal Programs:

- Material weakness (es) identified?  Yes  No
- Significant deficiency (ies) identified?  Yes  None Reported

Type of auditors’ report issued on compliance for Major Federal Programs:

- Unmodified Opinion
  - Adult Education – Basic Grants to States
  - Twenty-First Century Community Learning Centers
  - Grants for State Assessments and Related Activities
  - Student Support and Academic Enrichment Program
  - Hurricane Education Recovery
  - Disaster Grants – Public Assistance (Presidentially Declared Disasters)
- Qualified Opinion
  - Child Nutrition Cluster
  - Child and Adult Care Food Program
  - Grants to States
  - Student Financial Assistance Programs Cluster
  - Special Education Cluster
  - Title I Grants to Local Educational Agencies
  - Career and Technical Education – Basic Grants to States
  - Supporting Effective Instruction State Grants
- Adverse Opinion  Disclaimer Opinion

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

- Yes  No

**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

Identification of Major Federal Programs:

| CFDA NUMBER            | NAME OF FEDERAL PROGRAM OR CLUSTER                                      |
|------------------------|---|
| 10.555; 10.559         | Child Nutrition Cluster   |
| 10.558                 | Child and Adult Care Food Program                                       |
| 45.310                 | Grants to States  |
| 84.002                 | Adult Education – Basic Grants to States                                |
| 84.007; 84.033; 84.063 | Student Financial Assistance Programs Cluster                           |
| 84.027; 84.173         | Special Education Program Cluster                                       |
| 84.010                 | Title I Grants to Local Educational Agencies                            |
| 84.048                 | Career and Technical Education – Basic Grants to States                 |
| 84.287                 | Twenty-First Century Community Learning Centers                         |
| 84.367                 | Supporting Effective Instruction State Grants                           |
| 84.369                 | Grants for State Assessments and Related Activities                     |
| 84.424                 | Student Support and Academic Enrichment Program                         |
| 84.938                 | Hurricane Education Recovery  |
| 97.036                 | Disaster Grants – Public Assistance (Presidentially Declared Disasters) |

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

\$3,000,000

Auditee qualified as low-risk auditee?

Yes

No



**SECTION II – FINANCIAL STATEMENT FINDINGS**

|   |  |
|---|--|
| <b>FINDING REFERENCE NUMBER</b>           | <b>2020-001</b>  |
| <b>TYPE OF FINDING</b>                    | <b>SIGNIFICANT DEFICIENCY</b>  |
| <b>CRITERIA</b>                           | 2 CFR § 200.514 Scope of audit. (a) General. The audit must be conducted in accordance with GAGAS. The audit must cover the entire operations of the auditee, or, at the option of the auditee, such audit must include a series of audits that cover departments, agencies, and other organizational units that expended or otherwise administered Federal awards during such audit period, provided that each such audit must encompass the financial statements and schedule of expenditures of Federal awards for each such department, agency, and other organizational unit, which must be considered to be a non-Federal entity. The financial statements and schedule of expenditures of Federal awards must be for the same audit period. (b) Financial statements. The auditor must determine whether the financial statements of the auditee are presented fairly in all material respects in accordance with generally accepted accounting principles.   |
| <b>CONDITION</b>                          | Annually, the PRDE receives funds from the Commonwealth for the operation of the Office for the Improvements of Public Schools (OMEP) as part of the General Fund appropriation. This office is a department or fund within the PRDE structure. During our audit procedures of the financial statement of the PRDE, we noted that the PRDE only accounts for the payroll and fringe benefit expenditures appropriated for the fiscal year. The other funds appropriated on the budget approved are transfers to the OMEP separate bank accounts from which payments for other budgeted expenditures related to the OMEP operations are drafted. OMEP maintains separate accounting for these funds and are not subject to the PRDE's supervision or fiscal oversight. The PRDE does maintain and account for a final liquidation of funds not expended by the OMEP at year end. However, for the fiscal year under audit the final liquidation of funds not expended by OMEP (amounting to \$2,505,727) was received after the year end closeout period and was register on the next fiscal year as a reduction of expenditures of the following year. |
| <b>CONTEXT</b>                            | This is a systematic deficiency, the PRDE keeps part of the accounting and transactions of this fund in a separate accounting system. This fund previously performed an audit of its transactions, but the last report issued was for the fiscal year 2017-2018. In previous years, the transactions of this fund were not reconciled for the purposes of presenting this information as part of the Single Audit of the PRDE.   |
| <b>EFFECT</b>                             | The PRDE may fail to include the correct balances of the result of operations from OMEP approved budget due to the separate accounting and funds transfers made during the fiscal year. Also, unobligated balances at state agencies (including the PRDE) are subject to Puerto Rico Treasury Department recapture procedures at year end and incorrect reporting may cause delays and incorrect reporting at the state level financial reporting.   |
| <b>CAUSE</b>                              | The PRDE does not maintains adequate supervision and accountability of all funds appropriated from the Puerto Rico general fund budget as part of the year end closeout process. The operations of OMEP have been establish providing certain operational independence from the PRDE's standard procedures while in legal terms the OMEP is not a legal separate entity from the PRDE.   |
| <b>IDENTIFICATION AS A REPEAT FINDING</b> | Not previously reported.   |
| <b>RECOMMENDATION</b>                     | We recommend the PRDE to maintain adequate records related to the actual expenditures incurred by OMEP and perform monthly monitoring of the financial transactions of the OMEP by the PRDE accounting office staff or financial consultants. Also, formal closeout procedures should be established with due dates sufficient to provide the PRDE with adequate and timely financial information in order to comply with the Treasury Department year end closeout requirements and for financial statements preparation purposes.  |

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER 2020-001 – continuation

IEWS OF RESPONSIBLE  
OFFICIALS AND PLANNED  
CORRECTIVE ACTION

Funds transferred to OMEP are entirely related to State funds. PRDE has accounted for this State funds as established between different agencies including the Puerto Rico Office of Management and Budget according to its understanding based on the available regulation and governmental structure.

PRDE over the years has monitored these funds. Transfers made to OMEP are adjudged based in a budget. Disbursements made by OMEP are strictly performed over these specific accounts included in such budget. Any fund not expended during year-end operations are transferred-in to PRDE. Additionally, such funds expended by OMEP has been subjected to audits by an independent auditor.

However, during the last months management has been discussing the possibility of account for the entire OMEP operations within the PRDE accounting system and in this way ensuring that all details are included in the same financial system. The final output about this change should take place during the following months. Nevertheless, as this change is made, PRDE will monitor the expenses incurred by OMEP and will ensure that any fund not expended has been received before the fiscal year end.

IMPLEMENTATION DATE September 21, 2021

RESPONSIBLE PERSON Evelyn Rodríguez Cardé, Finance Director

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

|   |   |
|---|---|
| <b>FINDING REFERENCE NUMBER</b>         | <b>2020-002</b>   |
| <b>FEDERAL PROGRAM</b>                  | <b>(CFDA NO. 84.027) SPECIAL EDUCATION – GRANTS TO STATES (IDEA, PART B) CLUSTER (CFDA 84.173) SPECIAL EDUCATION – PRESCHOOL GRANTS (IDEA PRESCHOOL) U.S. DEPARTMENT OF EDUCATION</b>   |
| <b>AWARD NUMBER</b>                     | <b>H027A170003 (07/01/2017 – 09/30/2018); H027A180003 (07/01/2018 – 09/30/2019); H027A190003 (07/01/2019 – 09/30/2020); H173A170003 (07/01/2017 – 09/30/2018); H173A180003 (07/01/2018 – 09/30/2019); H173A190003 (07/01/2019 – 09/30/2020).</b>  |
| <b>COMPLIANCE REQUIREMENT</b>           | <b>ACTIVITIES ALLOWED OR UNALLOWED</b>  |
| <b>TYPE OF FINDING</b>                  | <b>SIGNIFICANT DEFICIENCY</b>   |
| <b>CRITERIA OR SPECIFIC REQUIREMENT</b> | 2 CFR Section 200.302 (a) establishes that each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award. In addition, 2 CFR Section 200.403 (b) establishes that except where otherwise authorized by statute, costs must be adequately documented in order to be allowable under Federal awards.  |
| <b>CONDITION</b>                        | As part of our procedures over internal controls and compliance for the allowable activities' requirement, we selected a sample of seventy six (76) disbursement to suppliers made during fiscal year under audit. We noted the following deficiencies: <ol style="list-style-type: none"> <li>1. In one (1) instance, we found that the detail of the invoice sent by the service provider did not include in some document's information about the student, to whom the service was provided, which would identify him as participating in the special education program (PEI number ). In addition, the invoice was not signed by the service provider.</li> <li>2. In twenty nine (29) vouchers evaluated, it was found that the invoiced expenses corresponded to both cluster programs (CFDA Nos. 84.027 and 84.173), and the invoices established this. However, the expenses in the system were recognized in grant no. 84.027, not according to the participants attended and invoiced, according to their age.</li> </ol> |
| <b>QUESTIONED COSTS</b>                 | None.   |
| <b>CONTEXT</b>                          | This deficiency is a systemic problem that is related to lack of proper training and controls that requires standard evaluation, approval, and reporting of expenditures incurred.  |
| <b>EFFECT</b>                           | The PRDE is reporting expenses within the cluster that do not necessarily reflect the actual expenses incurred by each program in the cluster, this deficiency requires that when the period of availability of funds is ending, some adjustments be made to reclassify expenses, up to the amount of the award.  |
| <b>CAUSE</b>                            | According to interviews carried out and documentation evaluated, some goods and services are received in the different Regional Offices (ORE), and each one carries out similar, but not standard, processes when certifying as received or pre-intervening invoices.   |

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2020-002 – continuation

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

IDENTIFICATION AS A REPEAT FINDING

Not previously reported.

RECOMMENDATION

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

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

*Related to conditions number one (1)*, PRDE established in its financial system an internal control to document and review each invoice received by the service providers. As part of these procedures, PRDE also requires that the service providers submit an Agreed Upon Procedure (AUP) by a Certified Public Accountant (CPA). On this AUP, the CPA certifies that the invoice was accurate, and validate that the students included in the invoice are allowable and in compliance with the contract between the service provider and PRDE. Additionally, the PRDE reviewed the information provided and ensures that the invoice has all the requirements to follow the payment process in the system.

As a corrective action plan, PRDE will require that all invoices submitted to the PRDE include details of services provided and students list. In this way, will be consistent with the requirements established on similar invoices.

*For the condition number two (2)*, IDEA Part B, Section 611 funds can be used for students ages 3 to 21. According to the description that OSEP provides for the §611: Special Education – Grants to States program, indicates that "The Grants to States program provides formula grants to assist the 50 states, the District of Columbia, Puerto Rico, the Department of the Interior, Outlying Areas, and the Freely Associated States in meeting the excess costs of providing special education and related services to children with disabilities. In order to be eligible for funding, states must serve all children with disabilities between the ages of 3 through 21, except that they are not required to serve children aged 3 through 5 or 18 through 21 years if services are inconsistent with State law or practice or the order of any court. A state that does not provide a free appropriate public education (FAPE) to children with disabilities aged 3 through 5 cannot receive base payment funds attributable to this age group or any funds under the Preschool Grants program."

Under 34 CFR § 300.202 (a), the LEA must use funds from IDEA, Part B "in accordance with the applicable provisions of this part ... to pay the excess costs of providing special education and related services to children with disabilities."

As a corrective action plan, PRDE will be implementing an update to MIPE financial system in which will requires system control at the time of applying the fund with which the expense will be covered.

continue

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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**FINDING REFERENCE NUMBER**      2020-002 – continuation

**IMPLEMENTATION DATE**            Current Fiscal Year

**RESPONSIBLE PERSON**            Enid Díaz, Director of Administration  
   Jessica Díaz, Acting Associate Secretary

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

|   |   |
|---|---|
| <b>FINDING REFERENCE NUMBER</b>         | <b>2020-003</b>   |
| <b>FEDERAL PROGRAM</b>                  | (CFDA NO. 84.007) FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS (FSEOG) (STUDENT FINANCIAL ASSISTANCE CLUSTER (CFDA NO. 84.033) FEDERAL WORK-STUDY PROGRAM (FWS) (CFDA NO. 84.063) FEDERAL PELL GRANT PROGRAM (PELL) U.S. DEPARTMENT OF EDUCATION   |
| <b>AWARD NUMBER</b>                     | PPA OPE ID: 02241900 (03/19/2019 – 12/31/2021)  |
| <b>COMPLIANCE REQUIREMENT</b>           | ACTIVITIES ALLOWED OR UNALLOWED // ELIGIBILITY  |
| <b>TYPE OF FINDING</b>                  | <b>MATERIAL WEAKNESS</b>  |
| <b>CRITERIA OR SPECIFIC REQUIREMENT</b> | <p>To participate of Title IV, HEA programs the institution must enter into a written program participation agreement with the Secretary in accordance with 34 CFR 668.14 (a). Per 34 CFR 668.14 (b) by entering into a program participation agreement, an institution agrees that: (4) It will establish and maintain such administrative and fiscal procedures and records as may be necessary to ensure proper and efficient administration of funds received from the Secretary or from students under the Title IV, HEA programs, together with assurances that the institution will provide, upon request and in a timely manner, information relating to the administrative capability and financial responsibility of the institution; (6) It will comply with the provisions of § 668.16 relating to standards of administrative capability.</p> <p>Per 34 CFR 668.16 the Secretary considers an institution to have that administrative capability if the institution: (a) administers the Title IV, HEA programs in accordance with all statutory provisions of or applicable to Title IV of the HEA, all applicable regulatory provisions prescribed under that statutory authority, and all applicable special arrangements, agreements, and limitations entered into under the authority of statutes applicable to Title IV of the HEA; (c)(1) administers Title IV, HEA programs with adequate checks and balances in its system of internal controls; (d)(1) establishes and maintains records required under this part and the individual Title IV, HEA program regulations.</p> <p>Per Title 20 Chapter 28 Subchapter IV Part F section 1087kk the financial need is defined as: the cost of attendance of such student, minus; the expected family contribution for such student, minus; estimated financial assistance not received under this subchapter. Also section 1087ll defined cost of attendance as: (1) tuition and fees normally assessed a student carrying the same academic workload as determined by the institution, and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study; (2) an allowance for books, supplies, transportation, and miscellaneous personal expenses, including a reasonable allowance for the documented rental or purchase of a personal computer, for a student attending the institution on at least a half-time basis, as determined by the institution; (3) an allowance (as determined by the institution) for room and board costs incurred by the student based on: is a student without dependents and residing at home with parents, or residing at and institutionally owned or operated housing, for students who live in housing located on a military base, and for all other students shall be an allowance based on the expenses reasonably incurred by such students for room and board; (8) for a student with one or more dependents, an allowance based on the estimated actual expenses incurred for such dependent care, based on the number and age of such dependents; (9) for a student with a disability, an allowance (as determined by the institution) for those expenses related to the student's disability, including special services, personal assistance, transportation, equipment, and supplies that are reasonably incurred and not provided for by other assisting agencies; among other considerations.</p> |

continue

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**FINDING REFERENCE NUMBER**      **2020-003 – continuation**

**CONDITION**

The following deficiencies were found:

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

**QUESTIONED COSTS**

None.

**CONTEXT**

This represents a systematic problem per our evaluation.

**EFFECT**

Provisional Certification:

The PRDE could remain in the restricted provisional basis (Provisional Certification) stated in Program Participation Agreement (PPA). This provisional certification is granted for a limited period to permit the Institution to participate in the Title IV, HEA programs referenced in this agreement. During the period of provisional certification, the participation of the Institution will be subject to revocation for cause.

Reasons and Special Conditions of Provisional Certification – Deficiencies in Administrative Capability

Recent audits and/or a recent program review of the institution's performance of its responsibilities as a participant in the Title IV, HEA programs have disclosed serious, repeated or systemic deficiencies that directly relate to the regulatory elements identified in 34 CFR 668.16. These regulatory elements are essential to an acceptable level of administrative capability. Accordingly, the institution's participation in the Title IV, HEA programs will be restricted to a provisional basis. Upon the expiration of the PPA, return to a non-provisional basis will occur only when the institution is able to demonstrate that its level of administrative capability is commensurate with the standards established in the referenced regulation.

(Refer to PPA. OPE ID: 02241900, Provisional Certification)

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2020-003 – continuation

**CAUSE** The PRDE failed to appropriate monitoring, supervise and document the compliance of the internal controls in place that provides reasonable assurance to PRDE in order to managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal awards.

**IDENTIFICATION AS A REPEAT FINDING** This is a repeat finding (Finding Reference Number 2019-013).

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

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION**

**Management Response for Finding 2020-003-1**

Management concurs with the auditors finding, however the three cases in this finding were all corrected. This was an isolated incident that occurred at PRDE Guayama campus, where the officer placed the COA from a Dependent student to a student with Independent status. It should be pointed out that PRDE main office establishes average costs for different categories of students and sets up these cost categories in ED Express. ED Express then uses this information to determine awards and package aid. This method ensures that the student's need is evaluated correctly, so that student's accounts do not reflect an over award on the account. Please note, that an over award is created when a student's aid package exceeds his or her need or overall cost of attendance (COA).

**Management Response for Finding 2020-003-2**

Management is not in agreement with this finding. In regard to the COA form, the information for the second semester was documented on the back of the reviewed printed sheet that covered the first semester, therefore the COA calculation for the second semester was in the file. We want to emphasize that the students in question received the correct awards based on the COA calculations. It must also be pointed out that PRDE has acquired a new system (Orbound), that will fully automate PRDE. This system is an automated one, so all the documentation will be automated and not done manually, therefore completely facilitating all the required documents for subsequent audits. PRDE have also contracted with an external auditing company to do internal audits frequently so that there will be no repeat findings.

**Auditor Comment on Management Response for Finding Reference No. 2020-003 - 2**

As stated in CONDITION 2., "The calculation of COA amount was not documented for the 2nd Semester, based in the student enrollment." This information was presented to the person in charge, Kelvin Pagán La Luz and he informed by email on September 24, 2024: "In regard to the COA form, the information for the second semester was documented on the back of the reviewed printed sheet that covered the first semester, therefore the COA calculation for the second semester was in the file." That information never was presented to our Auditors and constitute a scope limitation in our procedures. The Finding was prevailed and correspond to the US Department of Education the final determination.

continue



SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2020-003 – continuation

**Management Response for Finding 2020-003-3**

Management is not in agreement with this finding. The student's control cards contains all of the information regarding calculation of the COA, amount of aid awarded, disbursed and the student's need just to name a few, therefore, the SEOG information is also included on the student's control cards. As to the issue of the repeat finding 2019-013, the auditor's alternate review showed that this issue was corrected and in none instances the total Title IV Funds awarded exceeded their financial need. PRDE would not have this issue, because we have entered into a purchase agreement with a renowned software development company (Orbound) that specializes in student information systems. We presented the documentation showing the financial aid granted to these students, in none of the instances the Total Title IV Funds awarded exceeded their financial need. PRDE have also contracted with an external auditing company to do internal audits frequently so that there will be no repeat findings.

***Auditor Comment on Management Response for Finding Reference No. 2020-003 - 3***

As stated in CONDITION 3., "The Student file does not include the SEOG documentation related to the calculation of the award and disbursement amount for nineteen (19) students." This information was presented to the person in charge, Kelvin Pagán La Luz and he informed by email on September 24, 2024: "The student's control cards contains all of the information regarding calculation of the COA, amount of aid awarded, disbursed and the student's need just to name a few, therefore, the SEOG information is also included on the student's control cards." That information never was presented to our Auditors and constitute a scope limitation in our procedures. The Finding was prevailed and correspond to the US Department of Education the final determination.

**Management Response for Finding 2020-003-4**

Management concurs with the auditor that the financial assistance control card was not signed however , we believe this finding is just an internal control matter created by PRDE because all of the financial assistance awarded to the students was reflected on the students control card, and also all the awards were made according to the Title IV regulations.

**Management Response for Finding 2020-003-5**

Managements concurs with the auditor that the enrollment was not signed by the registrar, however the enrollment documentation contain the registrar's seal. In order for the Institution to make a disbursement, it must have an initial enrollment agreement to the program chosen by the student. PRDE has the agreement signed by the student and the PRDE official.

**Management Response for Finding 2020-003-6**

Management does not agree with the auditors finding. The students control card does reflect all of the financial aid awarded. It must also be pointed out that PRDE has acquired a new system (Orbound), that will fully automate PRDE. This system is an automated one, so all the documentation will be automated and not done manually, therefore completely facilitating all the required documents for subsequent audits. PRDE have also contracted with an external auditing company to do internal audits frequently so that there will be no repeat findings.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2020-003 – continuation

***Auditor Comment on Management Response for Finding Reference No. 2020-003 - 6***

As stated in CONDITION 6., “The Student file does not have the Pell Award documentation for the 1st Semester or the 2nd Semester for eight (8) students.” This information was presented to the person in charge, Kelvin Pagán La Luz and he informed by email on September 24, 2024: “The students control card does reflect all of the financial aid awarded.” That information never was presented to our Auditors and constitute a scope limitation in our procedures. The Finding was prevailed and correspond to the US Department of Education the final determination.

**Management Response for Finding 2020-003-7**

Management concurs with the auditors finding however this has been corrected and procedures have been initiated so that this will not be an issue going forward. Please note that all the awards were made according to the Title IV regulations.

**Management Response for Finding 2020-003-8**

Managements concur with the auditors finding and the three student's files have all been corrected. This was an isolated case that occurred at Troquelera campus where the officer manually, incorrectly, calculated the student's COA. As previously mentioned PRDE main office establishes average costs for different categories of students and sets these cost categories in ED Express, who then uses this information to determine awards and package aid. This method ensures that the student's need is evaluated correctly so that student's accounts do not reflect an over award. Again, an over award exists when a student's aid package exceeds his or her need or overall cost of attendance (COA). The COA's were corrected and the disbursement to the student was not affected because the amount disbursed did not exceed the student's need.

IMPLEMENTATION DATE Already Implemented

RESPONSIBLE PERSON Kelvin Pagán La Luz, Director of Technical Education Division

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

|   |  |
|---|--|
| <b>FINDING REFERENCE NUMBER</b>         | <b>2020-004</b>  |
| <b>FEDERAL PROGRAM</b>                  | (CFDA NO. 84.010) TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES CLUSTER<br>(CFDA 84.013) TITLE I STATE AGENCY PROGRAM FOR NEGLECTED AND DELINQUENT CHILDREN AND YOUTH<br>(CFDA 84.027 / 84.173) SPECIAL EDUCATION CLUSTER (IDEA)<br>(CFDA 84.048) CAREER AND TECHNICAL EDUCATION – BASIC GRANTS TO STATES<br>(CFDA 84.287) TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS<br>(CFDA 84.365) ENGLISH LANGUAGE ACQUISITION STATE GRANTS<br>(CFDA 84.367) SUPPORTING EFFECTIVE INSTRUCTION STATE GRANTS<br>(CFDA 84.424) STUDENT SUPPORT AND ACADEMIC ENRICHMENT PROGRAM<br>U.S. DEPARTMENT OF EDUCATION   |
| <b>AWARD NUMBER</b>                     | S010A170052 (07/01/2017 – 09/30/2018); S010A180052 (07/01/2018 – 09/30/2019);<br>S010A190052 (07/01/2019 – 09/30/2020); S013A180052 (07/01/2018 – 09/30/2019);<br>S013A190052 (07/01/2019 – 09/30/2020); H027A170003 (07/01/2017 – 09/30/2018);<br>H027A180003 (07/01/2018 – 09/30/2019); H027A190003 (07/01/2019 – 09/30/2020);<br>H173A170003 (07/01/2017 – 09/30/2018); H173A180003 (07/01/2018 – 09/30/2019);<br>H173A190003 (07/01/2019 – 09/30/2020) S287C180039 (07/01/2018 – 06/30/2019);<br>V048A170052 (07/01/2017 – 09/30/2018); V048A180052 (07/01/2018 – 09/30/2019);<br>S287C190039 (07/01/2019 – 09/30/2020); S365A180052 (07/01/2018 – 09/30/2019);<br>S365A190052 (07/01/2019 – 09/30/2020); S367A180052 (07/01/2018 – 09/30/2020);<br>S367A190052 (07/01/2019 – 09/30/2020); S424A180040 (07/01/2018 – 09/30/2019);<br>S424A190040 (07/01/2019 – 09/30/2020).  |
| <b>COMPLIANCE REQUIREMENT</b>           | <b>ALLOWABLE COSTS/COSTS PRINCIPLES</b>  |
| <b>TYPE OF FINDING</b>                  | <b>MATERIAL WEAKNESS</b>   |
| <b>CRITERIA OR SPECIFIC REQUIREMENT</b> | 2 CFR Section 200.403 (b) establishes that except where otherwise authorized by statute, costs must be adequately documented in order to be allowable under Federal awards. In addition, 2 CFR Section 200.430 (a)(3), indicates that costs of compensation are allowable to the extent that they satisfy the specific requirements of this Part, and that the total compensation for individual employees is determined and supported as provided in paragraph (i) of this section, Standards for Documentation of Personnel Expenses, when applicable. 2 CFR Section 200.430 (i) defines allowable activities as charges to Federal awards may include reasonable amounts for activities contributing and directly related to work under an agreement, such as delivering special lectures about specific aspects of the ongoing activity, writing reports and articles, developing and maintaining protocols (human, animals, etc.), managing substances/chemicals, managing and securing project-specific data, coordinating research subjects, participating in appropriate seminars, consulting with colleagues and graduate students, and attending meetings and conferences. |
| <b>CONDITION</b>                        | As part of our audit processes on the personnel and payroll processes, both for financial purposes and for Federal programs, as applicable, we selected a sample of two hundred forty (240) employees. The following deficiencies were found:<br><br>1. The PRDE was unable to provide evidence of employee leave accrual, adjustments, and utilization for the month of September 2019.<br>2. For the Special Education-Grants to States Program, from the selected sample of sixty (60) employees paid in the second half of September 2019, we found that in one instance, the employee had an unpaid leave effective from August 1, 2019, and received full payment of \$1,142 for the fortnight ended on September 27, 2019.  |

continue

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

|   |   |
|---|---|
| <b>FINDING REFERENCE NUMBER</b>                                     | <b>2020-004 – continuation</b>  |
|   | <p>3. In the sample of internal controls over financial reporting, from the selected sample of sixty (60) employees paid in the second half of September 2019, we found that an employee had an effective leave without pay since May 1, 2019, and received full payment of \$623.53 for the fortnight ended on September 27, 2019.</p> <p>4. In relation to the program Career and Technical Education -- Basic Grants to States, we selected a journal entry related to payroll expenditures. In the database provided, we noted payroll expenditures amounting to \$67,364.32 that did not belong to the program allowable cost. We confirmed that these administrative expenditures should have been accounted for through the Special Education-Grants to States Program (IDEA, Part B) CFDA 84.027. These transactions were prospectively adjusted by transferring those costs to this program.</p>   |
| <b>QUESTIONED COSTS</b>   | Undetermined.   |
| <b>CONTEXT</b>  | This deficiency is a systemic problem that is related to lack of proper training and controls that requires standard evaluation, approval, and reporting of expenditures incurred.  |
| <b>EFFECT</b>   | The PRDE incurred in payments to employees for hours not worked, and for which specific grants were received, this is not an allowable activity.  |
| <b>CAUSE</b>  | <p>The PRDE does not have a report to help them monitor and adjust employee leave accrual and utilization on a regular basis.</p> <p>This deficiency is a systemic problem related to the manual system that was used during the fiscal year under audit, for which all documentation was on paper, and not verified and maintained in a time and attendance system.</p>  |
| <b>IDENTIFICATION AS A REPEAT FINDING</b>                           | Not previously reported.  |
| <b>RECOMMENDATION</b>   | We recommend the PRDE to design and implement adequate internal controls and payroll processes that will identify in real – time or sooner, any incorrect payroll payment made.   |
| <b>VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION</b> | <p>Regarding condition number 1, PRDE submitted the evidence of the accumulated, adjusted or used balances of the employees for the month of September 2019 as understood during the first information request. Subsequently, during a meeting, the PRDE was asked to review the information with additional details. Unfortunately, and due to error, it was not submitted by the date indicated. However, we emphasize that the updated information was provided after such date. Also, it should be noted that the agency is willing to answer any questions or concerns about the information provided in relation to this condition.</p> <p>Regarding conditions number 2 and 3, during fiscal year 2020-2021 the PRDE has established a biweekly salary adjustment process as part of the controls on employees who do not have a vacation and illness balances. Additionally, for these cases the PRDE made the corresponding adjustments, either through the stop of payment and invoice to the collection and/or payment plan.</p> |

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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**FINDING REFERENCE NUMBER**      2020-004 – continuation

As established in condition number 4, the PRDE accounted for a payroll in an incorrect federal program. However, as mentioned in the condition, such payroll was adjusted as part of the accounting closing. This demonstrate that the PRDE has the proper internal controls to identify a situation of this nature. It is important to emphasize that this adjustment was carried out before the audit process.

Although the PRDE have in place controls to identify these improper payments subsequently, the agency will be evaluating the payroll processes together with the Third-Party Fiduciary so that these improper disbursements do not occur since the inception. These new procedures are expected to go into effect during the subsequent fiscal years.

**IMPLEMENTATION DATE**                      Conditions 2 and 3 – Already implemented  
Condition 4 – In process

**RESPONSIBLE PERSON**                      Frances M. Pelet Román, Auxiliary Secretary of Human Resources

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**FINDING REFERENCE NUMBER** 2020-005

**FEDERAL PROGRAM** (CFDA NO. 84.010) TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES  
 (CFDA 84.027) SPECIAL EDUCATION – GRANTS TO STATES (IDEA, PART B)  
 (CFDA 84.048) CAREER AND TECHNICAL EDUCATION – BASIC GRANTS TO STATES  
 (CFDA 84.367) SUPPORTING EFFECTIVE INSTRUCTION STATE GRANTS  
 U.S. DEPARTMENT OF EDUCATION

**AWARD NUMBER** S010A180052 (07/01/2018 – 09/30/2019); H027A16003 (07/01/2016 – 09/30/2017);  
 V048A160052 (07/01/2016 – 09/30/2018); V048A180052 (07/01/2018 – 09/30/2020);  
 S367A180052 (07/01/2018 – 09/30/2020).

**COMPLIANCE REQUIREMENT** ALLOWABLE COSTS/COSTS PRINCIPLES

**TYPE OF FINDING** MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS

**CRITERIA OR SPECIFIC REQUIREMENT** 2 CFR Section 200.403 (b) establishes that except where otherwise authorized by statute, costs must be adequately documented in order to be allowable under Federal awards. In addition 2 CFR Section 200.53, defines improper payments as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. Improper payment includes any payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), any payment that does not account for credit for applicable discounts, and any payment where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper.

**CONDITION** As part of our audit procedures and interviews over financial reporting, we obtained a detail of accounts receivable related to duplicate payments to suppliers in the amount of \$108,775; and duplicate or incorrect payments made for payroll transactions in the amount of \$7,965,978. Invoices issued during the fiscal year ended June 30, 2020 balance, were distributed as Federal and state, as follows:

| CFDA Number                                   | Program Description  | Transaction Balance |
|---|--|---------------------|
| 10.560  | State Administrative Expenses for Child Nutrition                            | \$ 3,725            |
| 84.010  | Title I Grants to Local Educational Agencies                                 | 3,343               |
| 84.013  | Title I State Agency Program for Neglected and Delinquent Children and Youth | 1,734               |
| 84.027  | Special Education - Grants to States (IDEA, Part B)                          | 63,542              |
| 84.041  | Impact Aid   | 8,424               |
| 84.048  | Career and Technical Education - Basic Grants to States                      | 3,637               |
| 84.367  | Supporting Effective Instruction State Grants                                | 12,543              |
| Not Determined                                | Schoolwide Program (State and Federal Funds)                                 | 1,930,444           |
| Not Determined                                | School Food Authority (State and Federal Funds)                              | 200,495             |
| Not Determined                                | Consolidated Funds (State and Federal Funds)                                 | 9,095               |
| Not Determined                                | Funds from prior years (State and Federal Funds)                             | 4,864,136           |
| Not Applicable                                | State Funds  | 973,635             |
| Total Invoices Issued Balance on June 30,2020 |  | <u>\$ 8,074,753</u> |

continue

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

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|---|---|
| <b>FINDING REFERENCE NUMBER</b>                                     | <b>2020-005 – continuation</b>  |
| <b>QUESTIONED COSTS</b>   | Identified questioned costs are \$96,948, for which were identified as employees that did not work for the Federal program. Other amount may be unallowed, if the PRDE can identify the portion of Federal funding incurred in Schoolwide, Consolidated and from prior years.   |
| <b>CONTEXT</b>  | The amount of \$4,864,136, corresponds to incorrect payroll payments made from prior years, for which during fiscal year 2019-2020, the PRDE determined that an invoice for excess payroll payments proceeds. The PRDE was unable to indicate, which amount of Schoolwide or Consolidated funds corresponds to Federal funding, because these funds close at year end.  |
| <b>EFFECT</b>   | The PRDE incurred in payments to employees for hours not worked, and for which specific grants were received. In addition, payments made to suppliers constitute payment for services not rendered to the PRDE.   |
| <b>CAUSE</b>  | <p>The PRDE sends the Treasury Department of Puerto Rico a balance of the payroll, before the end of the fortnight, to speed up the payment process. By sending this information without balancing the hours worked, it causes errors in the payroll computations. In addition, according to interviews, the schools and regions send reports of changes and leave without pay, with several days or even weeks late, this causes payrolls of employees who are undergoing leave without pay to be sent for pay.</p> <p>Regarding supplier payments, these transactions were the result of a massive payment made to pay debts from previous years, as approved by the Puerto Rico Department of the Treasury. This transaction was carried out with a detail in excel and did not run through the accounting system of the PRDE.</p>   |
| <b>IDENTIFICATION AS A REPEAT FINDING</b>                           | This is a repeat finding (Finding Reference Number 2019-001).   |
| <b>RECOMMENDATION</b>   | We recommend the PRDE to design and implement adequate internal controls and payroll processes that will identify in real – time or sooner, any incorrect payroll payment made. In relation to the deficiency related to the suppliers, a validation of all payments to be processed should be made in order to assure that no duplicate payments are made.   |
| <b>VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION</b> | <p>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's Human Resource Office developed and implemented a new policy of Time, Attendance and Tardiness, in December 2020. The automatization of these process prevents improper salary payments, overpayments and/or payments to employees without accumulated vacations or sick leave balances, among others.</p> <p>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.</p> |
| <b>IMPLEMENTATION DATE</b>  | Already implemented   |
| <b>RESPONSIBLE PERSON</b>   | Judith Parilla, Accounts Receivable Supervisor<br>Evelyn Rodríguez Cardé, Finance Director  |

continue

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

|   |   |
|---|---|
| <b>FINDING REFERENCE NUMBER</b>           | <b>2020-006</b>   |
| <b>FEDERAL PROGRAM</b>                    | (CFDA NO. 10.555) NATIONAL SCHOOL LUNCH PROGRAM (NSLP) – CHILD NUTRITION CLUSTER<br>(CFDA NO. 10.559) SUMMER FOOD SERVICE PROGRAM FOR CHILDREN (SUMMER FOOD SERVICE PROGRAM) (SFSP)<br>U.S. DEPARTMENT OF AGRICULTURE   |
| <b>AWARD NUMBER</b>                       | <b>202020N109941 (07/20/2019 – 06/30/2020)</b>  |
| <b>COMPLIANCE REQUIREMENT</b>             | <b>ELIGIBILITY</b>  |
| <b>TYPE OF FINDING</b>                    | <b>MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS</b>   |
| <b>CRITERIA OR SPECIFIC REQUIREMENT</b>   | Program regulations establishes the subrecipient eligibility at Title 7: Agriculture Part 210 — National School Lunch Program Subpart C—Requirements for School Food Authority Participation Subpart C—Requirements for School Food Authority Participation – §210.9 Agreement with State agency – (b) Agreement. Each school food authority approved to participate in the program shall enter into a written agreement with the State agency that may be amended as necessary. The agreement shall contain a statement to the effect that the “School Food Authority and participating schools under its jurisdiction, shall comply with all provisions of 7 CFR parts 210 and 245.”  |
| <b>CONDITION</b>                          | As part of our audit procedures, we selected a sample of ten (10) subrecipients files to test internal controls and compliance with the Subrecipient Eligibility requirement. As a result of our tests, we noted the following exceptions: <ol style="list-style-type: none"> <li>1. For one (1) subrecipient file tested, the Contract (Program Agreement) was not prepared during the fiscal year (See Finding Reference Number 2020-011). The first contract signed on September 23, 2020.</li> <li>2. During the fiscal year under audit from July 1, 2019 to June 30, 2020 a total of \$112,953 program funds were disbursed to this subrecipient without a contract/agreement being signed between the State Agency (PRDE) and the subrecipient.</li> </ol> |
| <b>QUESTIONED COSTS</b>                   | None.   |
| <b>CONTEXT</b>                            | A sample of ten (10) entities was selected for test purposes out of a total subrecipient list of sixty nine (69) entities that received program funds as subrecipients during the fiscal year.  |
| <b>EFFECT</b>                             | The PRDE does not holds the subrecipient accountable as required by the program regulations because it lack a formal active agreement/contract during the fiscal year. The subrecipient was not legally obligated to comply with program requirements as no agreement was in place.   |
| <b>CAUSE</b>                              | The program staff presented various emails and letters regarding the proposal review and evaluation process and we were able to locate these documents on the subrecipient file. However, final step to sign the required contract was not completed prior to the disbursements of the fiscal year under audit.   |
| <b>IDENTIFICATION AS A REPEAT FINDING</b> | Not previously reported.  |
| <b>RECOMMENDATION</b>                     | We recommend that the PRDE follows is own contract / agreement procedures and assured that program funds are only disbursed to subrecipients with a valid signed contract / agreement.  |

continue



SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2020-006 – continuation

IEWS OF RESPONSIBLE  
OFFICIALS AND PLANNED  
CORRECTIVE ACTION

After analyzing and reviewing the previous reports, AESAN agrees with the findings. Since August 8, 2021, we have taken administrative measures and assigned the personnel to accomplish the compliance requirements, and do not let a similar situation ever happen again. To provide context on this process, it goes as follows.

1. Sponsor File and Participation Request is analyzed by NSLP / SFSP personnel.
2. The AESAN Legal Advisor will review Sponsor Participation File and submit a formal opinion, regarding sponsor participation and recommendation for either AESAN Director signatures or submit findings with the proper corrective actions.
3. If the application file has all requirements, the Agreement will go for the AESAN Director signature.
4. Once property signed, the documents will be saved on a ONE-DRIVE file.

As of September 21, 2021, an official memorandum from AESAN Director was submitted to the AESAN Management personnel, that are directly responsible for the reimbursement of funds to Sponsor. The memorandum stated a brief of the finding, the internal process to follow and was follow by a meeting with the personnel.

IMPLEMENTATION DATE

October 1, 2021

RESPONSIBLE PERSON

Carmen Vega, (SFSP Coordinator)  
Mildred Carrasquillo, (NSLP Coordinator)  
Lcdo. Jezer Mulero (Legal Advisor)  
Lourdes García Santiago (AESAN Director)

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

|   |  |
|---|--|
| <b>FINDING REFERENCE NUMBER</b>           | <b>2020-007</b>  |
| <b>FEDERAL PROGRAM</b>                    | <b>(CFDA 84.027) SPECIAL EDUCATION CLUSTER (IDEA, PART B) CLUSTER<br/>       (CFDA 84.173) SPECIAL EDUCATION – PRESCHOOL GRANTS (IDEA PRESCHOOL)<br/>       U.S. DEPARTMENT OF EDUCATION</b>   |
| <b>AWARD NUMBER</b>                       | <b>H027A170003 (07/01/2017 – 09/30/2018); H027A180003 (07/01/2018 – 09/30/2019);<br/>       H027A190003 (07/01/2019 – 09/30/2020); H173A170003 (07/01/2017 – 09/30/2018);<br/>       H173A180003 (07/01/2018 – 09/30/2019); H173A190003 (07/01/2019 – 09/30/2020)</b>  |
| <b>COMPLIANCE REQUIREMENT</b>             | <b>EQUIPMENT AND REAL PROPERTY MANAGEMENT</b>  |
| <b>TYPE OF FINDING</b>                    | <b>SIGNIFICANT DEFICIENCY</b>  |
| <b>CRITERIA OR SPECIFIC REQUIREMENT</b>   | 2 CFR section 200.313, establishes that procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements: (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years. |
| <b>CONDITION</b>                          | As part of our procedures on equipment requirements, we request an inventory of equipment from the PRDE as of June 30, 2020. The inventory detail submitted does not present any disposition of assets, nor are there any assets identified that have been affected by the earthquakes that have occurred between December 2019 and January 2020, which damaged school structures. In addition, the evidence submitted as the inventory taking is an Excel sheet that presents total columns of equipment in the system, equipment not located, equipment added, change in custodian, and equipment added manually. This Excel sheet does not indicate the inventory taking date or the person who validates the inventory taking.   |
| <b>QUESTIONED COSTS</b>                   | Undetermined.  |
| <b>CONTEXT</b>                            | The document provided as evidence of the inventory taking reflects a total of 1,605,708 equipment in the system, of which 1,000,536 were not located. However, a test of equipment identified in the inventory detail sheet as acquired with IDEA funds was performed, and of the sample of seventeen (17) items, sixteen (16) were observed, and one (1) could not be evaluated due to being in one of the schools closed due to earthquake damage. This item, which could not be evaluated, was identified as active in the PRDE equipment detail.   |
| <b>EFFECT</b>                             | It was not possible to validate that the PRDE complies with the requirements established by the Federal regulation related to the maintenance of records of equipment acquired with Federal funds. In addition, the evidence provided on taking inventory shows inconsistencies between the PRDE records and the physical inventory.   |
| <b>CAUSE</b>                              | Due to various natural events that have occurred, the PRDE has not been able to work with the inventory and update it.   |
| <b>IDENTIFICATION AS A REPEAT FINDING</b> | Not previously reported.   |

continue

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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FINDING REFERENCE NUMBER      2020-007 – continuation

**RECOMMENDATION**

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

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION**

The report supplied is a summary of the inventories by location. However, in the PRDE financial system there is a certification by each school director which indicates the name and date on which each inventory was approved.

As a result of COVID-19 pandemic, PRDE faced delays in the auction process to be able to carry out its corresponding inventory. However, PRDE carried out a Formal Auction SF (OC) 2020-007 for the purchase of materials, equipment, and services for PRDE's physical inventory. What is intended is to replace the labels with more resistant ones and validate the assets in each location. The equipment and materials have not yet arrived at the PRDE due to the challenge of the auction and the COVID-19 pandemic. Once we receive the materials and equipment and we are trained, we will proceed to produce the new labels and begin the task of substitution and validation of assets in all the PRDE locations. We expect to receive materials, equipment and the corresponding training during the following months in order to execute the physical inventory.

**IMPLEMENTATION DATE**

Subject to the receipt of material and equipment.

**RESPONSIBLE PERSON**

Nilda Z. Morales Vázquez, Property Director

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

|   |  |
|---|--|
| <b>FINDING REFERENCE NUMBER</b>                                     | <b>2020-008</b>  |
| <b>FEDERAL PROGRAM</b>  | <b>(CFDA 84.002) ADULT EDUCATION – BASIC GRANTS TO STATES<br/>U.S. DEPARTMENT OF EDUCATION</b>   |
| <b>AWARD NUMBER</b>   | <b>V002A190053 (07/01/2019 – 09/30/2021)</b>   |
| <b>COMPLIANCE REQUIREMENT</b>                                       | <b>MATCHING, <u>LEVEL OF EFFORT</u>, EARMARKING</b>  |
| <b>TYPE OF FINDING</b>  | <b>NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY</b>  |
| <b>CRITERIA OR SPECIFIC REQUIREMENT</b>                             | A state eligible agency may receive funds for any fiscal year if the US Department of Education finds that the fiscal effort per student or the aggregate expenditures of such eligible agency for adult education and literacy activities, in the second preceding fiscal year, was not less than 90 percent of the fiscal effort per student or the aggregate expenditures of the state eligible agency for adult education and literacy activities, in the third preceding fiscal year (29 USC 3331(b)).  |
| <b>CONDITION</b>  | During our audits test of the Maintenance of effort reports, we noted that the aggregate expenditures for FY 2017 were 82% of the total aggregate expenditures of FY 2016. Therefore, the percent is below the 90% compliance requirement for the Maintenance of Effort for FY 2019.   |
| <b>QUESTIONED COSTS</b>   | None.  |
| <b>CONTEXT</b>  | This is a new finding and represents a systematic problem per our evaluation.  |
| <b>EFFECT</b>   | The PRDE could receive a decrease of funds if the percent is not met. This decrease of funds can be issued because the PRDE is not presenting the same needs funds from previous fiscal years to the current fiscal year.  |
| <b>CAUSE</b>  | The PRDE failed to comply with the percent requirement to receive funds for FY 2019 (July 2019-Sept 2020). A better assessment must be made before the renovation and/or petition of funds for every new fiscal year.  |
| <b>IDENTIFICATION AS A REPEAT FINDING</b>                           | Not previously reported.   |
| <b>RECOMMENDATION</b>   | We recommend that a formal finance and fiscal staff be assigned to the Adult Education State Grant program specifically. The PRDE have fiscal officers assigned to multiple federal programs and sensitive financial information can be missed for certain requirements.   |
| <b>VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION</b> | PRDE understands the importance of complying with the MOE requirement. At the same time, PRDE has been facing many challenges due to the country's fiscal crisis and establishment of a Fiscal Oversight and Management Board, state funds allocation reductions, enrollment decline and other unforeseen events, completely outside the Agency's control. As such, PRDE is currently working with the USDE in the re-calculation of the 2018-2019 and 2019-2020 MOE reports submitted to the USDE applying different methodologies and ensuring that PRDE is utilizing all the state fiscal sources that are allowable to be applied for the said calculation. PRDE is committed with the technical assistance sessions and communications with the USDE, seeking to clarify information and ultimately, resolve this matter. |

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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FINDING REFERENCE NUMBER    2020-008 – continuation

IMPLEMENTATION DATE        In process

RESPONSIBLE PERSON         Elsa Paz, Federal Coordinator  
   Yarelis Santiago Ramos, Director of Alternative Education

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

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|---|---|
| <b>FINDING REFERENCE NUMBER</b>           | <b>2020-009</b>   |
| <b>FEDERAL PROGRAM</b>                    | <b>(CFDA 45.310) GRANTS TO STATES<br/>NATIONAL ENDOWMENT OF THE HUMANITIES</b>  |
| <b>AWARD NUMBER</b>                       | <b>LS-00-17-0054-17 (10/01/2016 – 09/30/2019); LS-00-18-0054-18 (10/01/2017 – 09/30/2019);<br/>LS-00-19-0054-19 (10/01/2018 – 09/30/2020)</b>   |
| <b>COMPLIANCE REQUIREMENT</b>             | <b>MATCHING, <u>LEVEL OF EFFORT</u>, EARMARKING</b>   |
| <b>TYPE OF FINDING</b>                    | <b>NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY</b>   |
| <b>CRITERIA OR SPECIFIC REQUIREMENT</b>   | Program regulations at 20 U.S.C. § 9133(c)(1)(A)(i) establish a Maintenance of Effort requirement for the Grant to State program. Under a maintenance of effort provision, a State is required, as a condition of eligibility for Federal funding, to maintain its financial contribution to the program at not less than the amount of its contribution for some prior time period. IMLS's legislation provides as follows: The amount otherwise payable to a State for a fiscal year pursuant to an allotment under this part shall be reduced if the level of State expenditures for the previous fiscal year is less than the average of the total of such expenditures for the 3 fiscal years preceding that previous fiscal year. |
| <b>CONDITION</b>                          | During our audits test of the Maintenance of Effort reports, we noted that the aggregate expenditures for FY 2020 were \$19,309,196; the required expenditure to comply with the Maintenance of Effort for FY 2020 per the PRDE determination based on program requirements was \$19,649,680. Therefore, the PRDE did not reach the required expenditure level to comply with the requirement.  |
| <b>QUESTIONED COSTS</b>                   | None.   |
| <b>CONTEXT</b>                            | This is a new finding and represents a systematic problem per our evaluation.   |
| <b>EFFECT</b>                             | The PRDE could receive a decrease of funds if the requirement is not met. This decrease of funds can be issued because the PRDE is not presenting the same needs of the funds from previous fiscal years to the current fiscal year.  |
| <b>CAUSE</b>                              | Total expenditures of programs and funds related to library activities and program has experience decreases on recent fiscal years due to school closing and significant decrease in overall enrollment levels throughout the public school system on Puerto Rico. Also, recent budget restrictions due to the Fiscal Oversight Management Board under PROMESA Act has impacted the funds available for all public services funded by the government general fund, which includes the PRDE.   |
| <b>IDENTIFICATION AS A REPEAT FINDING</b> | Not previously reported.  |
| <b>RECOMMENDATION</b>                     | We recommend that a formal finance and fiscal staff be assigned to the Grants to States program specifically. The PRDE have fiscal officers assigned to multiple Federal programs and sensitive financial information can be missed for certain requirements.   |

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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FINDING REFERENCE NUMBER      2020-009 – continuation

**VIEWS OF RESPONSIBLE  
OFFICIALS AND PLANNED  
CORRECTIVE ACTION**

PRDE understands the importance of complying with the MOE requirement. At the same time, PRDE has been facing many challenges due to the country's fiscal crisis and establishment of a Fiscal Oversight and Management Board, state funds allocation reductions, enrollment decline and other unforeseen events, completely outside the Agency's control. PRDE as the State Library Administrative Agency (SLAA) requested a waiver for the fiscal year grant given that the SLAA failed to meet the Maintenance of Effort (MOE) requirement for FY 2019. The basis of the request was that Commonwealth of Puerto Rico has gone through a natural disaster aftermath as well as a precipitous and unforeseen decline in PRDE financial resources.

On September 12, 2019, the Institute of Museum and Library Services (IMLS) in response to the waiver, stated that they were not in a position to grant the SLAA a waiver of its statutory MOE requirements. As a result, the program will be in coordination with IMLS to establish a responsible action plan in order to attend to this matter in a timely manner.

**IMPLEMENTATION DATE**                      In process

**RESPONSIBLE PERSON**                      Héctor M. Reillo Cotto, Program Manager

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

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| <b>FINDING REFERENCE NUMBER</b>           | <b>2020-010</b>  |
| <b>FEDERAL PROGRAM</b>                    | <b>(CFDA NO. 84.027) SPECIAL EDUCATION – GRANTS TO STATES (IDEA, PART B) CLUSTER (CFDA 84.173) SPECIAL EDUCATION – PRESCHOOL GRANTS (IDEA PRESCHOOL) U.S. DEPARTMENT OF EDUCATION</b>  |
| <b>AWARD NUMBER</b>                       | <b>H027A170003 (07/01/2017 – 09/30/2018); H027A180003 (07/01/2018 – 09/30/2019); H027A190003 (07/01/2019 – 09/30/2020); H173A170003 (07/01/2017 – 09/30/2018); H173A180003 (07/01/2018 – 09/30/2019); H173A190003 (07/01/2019 – 09/30/2020).</b>   |
| <b>COMPLIANCE REQUIREMENT</b>             | <b>PROCUREMENT AND SUSPENSION AND DEBARMENT</b>  |
| <b>TYPE OF FINDING</b>                    | <b>MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS</b>  |
| <b>CRITERIA OR SPECIFIC REQUIREMENT</b>   | 2 CFR section 200.317, establishes that when procuring property and services under a Federal award, a state must follow the same policies and procedures it uses for procurements from its non-Federal funds.  |
| <b>CONDITION</b>                          | As part of our audit procedures on internal controls and compliance related to procurement of the IDEA Cluster program, we found the following deficiencies: <ol style="list-style-type: none"> <li>1. In the selected sample of disbursements of seventy-six (76) vouchers, the PRDE did not provide evidence on the procurement process for thirty-seven (37) disbursements. In two (2) quotation processes submitted, no evidence was found in the file on the "no bid" of the other bidders who were asked for quote.</li> <li>2. In the interviews conducted for the procurement process for therapy services and other related services, we found that, although an adequate procurement process is performed and scores are awarded in the evaluations, providers that did not meet the required minimum score are allowed to hold a meeting and be able to resubmit the proposal. This process is determined by the Director of Monitoring of Evaluations and Related Services, however, the "Guide for the selection of professional services that are paid for with federal funds" establishes that the determination to request a "best and final" offer must be requested by the Evaluation Committee.</li> <li>3. The PRDE maintains different procurement processes, according to the services or goods to be acquired. Specifically, for the proposals for therapy services and related services, they worked under the MIPE program, and this process is not contemplated in the procedure manuals or guidelines that the PRDE has.</li> </ol> |
| <b>QUESTIONED COSTS</b>                   | None.  |
| <b>CONTEXT</b>                            | This is a systemic deficiency.   |
| <b>EFFECT</b>                             | PRDE's procurement processes do not provide transparency and fairness when conducting and awarding procurement. These deficiencies do not meet the federal requirements to provide control mechanisms to avoid waste, fraud and abuse in the administration of federal funds.  |
| <b>CAUSE</b>                              | The PRDE maintains several areas to carry out the procurement processes, and they are not necessarily governed by the current regulations of the PRDE.   |
| <b>IDENTIFICATION AS A REPEAT FINDING</b> | This is a repeat finding (Finding Reference Number 2019-009).  |

continue



SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2020-010 – continuation

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

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION** Regarding to condition number one (1), PRDE properly performed the procurement process for the (37) disbursement selected. However, the documentation was kept in an off-site facility where they are currently in the search of the files and it is expected to have them available to be delivered. The program will continue to enforce the policies and procedures in order to provide the information in a more efficient and faster way.

On the other hand, concerning conditions number two (2) and three (3), this process does not represent a competitive process, it represents a service provider selection what seeks to obtain the largest number of providers in order to meet the high demand of services, which currently exceeds supply. These providers are selected as long they comply with the federal and state requirements for these purposes. In effect, at this moment the procedures established does not take into consideration any exceptions when a supplier does not meet the minimum requirements, as long as they are rectifiable matters. We will be reviewing current procedures in order to stipulate rectifiable exceptions during the process and which are not. Also, the review will take into consideration processes performed in systems such as MIPE program.

It is important to accentuate that PRDE's emphasis is to have the required resources to provide the services to these students. These opportunities have given scope to obtain a greater number of resources, which later, when contracted, have executed the services with the same or greater performance.

**IMPLEMENTATION DATE** Current fiscal year.

**RESPONSIBLE PERSON** Enid Díaz, Director of Administration  
Jessica Díaz, Acting Associate Secretary

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

|   |   |
|---|---|
| <b>FINDING REFERENCE NUMBER</b>         | <b>2020-011</b>   |
| <b>FEDERAL PROGRAM</b>                  | (CFDA NO. 10.555) NATIONAL SCHOOL LUNCH PROGRAM (NSLP) – CHILD NUTRITION CLUSTER<br>(CFDA NO. 10.559) SUMMER FOOD SERVICE PROGRAM FOR CHILDREN (SUMMER FOOD SERVICE PROGRAM) (SFSP)<br>U.S. DEPARTMENT OF AGRICULTURE   |
| <b>AWARD NUMBER</b>                     | 202020N109941 (07/20/2019 – 06/30/2021); 201919N109941 (07/20/2018 – 06/30/2020)  |
| <b>COMPLIANCE REQUIREMENT</b>           | <b>PROCUREMENT AND SUSPENSION AND DEBARMENT</b>   |
| <b>TYPE OF FINDING</b>                  | <b>MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS</b>   |
| <b>CRITERIA OR SPECIFIC REQUIREMENT</b> | In accordance with 2 CFR § 200.214 – Suspension and debarment: Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All non-procurement transactions entered into by a pass-through entity (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions. When entering into a covered transaction with another entity at the next lower tier, the grantee must verify that the person with whom you intend to do business is not excluded or disqualified. This can be accomplished by: (a) Checking SAM Exclusions; or (b) Collecting a certification from that person; or (c) Adding a clause or condition to the covered transaction with that person.  |
| <b>CONDITION</b>                        | As part of our audit procedures, we selected a sample of ten (10) subrecipients files to test internal controls and compliance with the Suspension and Debarment requirement. We review the proposals, contracts and related awards documents kept by the PRDE for each subrecipient on its file. As a result of our tests, we noted the following exceptions: <ol style="list-style-type: none"> <li>1. For one (1) subrecipient file tested, the Contract (Program Agreement) was not prepared during the fiscal year (See Finding Reference Number 2020-006). The first contract signed on September 23, 2020.</li> <li>2. For the other nine (9) subrecipient files tests and the one (1) detailed above, there was no information included on the file related to the SAM verification regarding the suspension and debarment of the subrecipient. Also, there was not on file any certification from the subrecipient regarding the requirement and the contracts (Program Agreements) did not include any contract clause regarding the requirement of the subrecipients and its management to not be suspended or debarred as required by the Federal regulations.</li> </ol> |
| <b>QUESTIONED COSTS</b>                 | None.   |
| <b>CONTEXT</b>                          | A sample of ten (10) entities was selected for test purposes out of a total subrecipient list of sixty nine (69) entities that received program funds as subrecipients during the fiscal year.  |
| <b>EFFECT</b>                           | The PRDE does not maintain an internal control process that provides reasonable assurance of complying with the requirement and subawards can be made to suspended or debarred individuals that results in questioned costs or loss of Federal funds.   |
| <b>CAUSE</b>                            | The program management was not aware of the compliance requirement as it apply to the programs of the cluster.  |

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2020-011 – continuation

IDENTIFICATION AS A REPEAT FINDING

Not previously reported.

RECOMMENDATION

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

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

After analyzing and reviewing the previous reports, AESAN agrees with the findings. Since August 8, 2021, we have taken administrative measures and assigned the personnel to accomplish the compliance requirements. For both the NATIONAL SCHOOL LUNCH PROGRAM (NSLP) SUMMER FOOD SERVICE PROGRAM FOR CHILDREN (SUMMER FOOD SERVICE PROGAM (SFSP) and the request regarding Debarment and Suspension. As a result of a separate finding made by the Federal Government in July 2021, the USDA-FNS gave us three different options to ensure that awarded contractors certify that they are not debarred, suspended, or otherwise disqualified from receiving Federal grant funds. These options included:

- Include a provision in the request of participation and contract, in wish the Sponsor or contractor would certifies with their signature, they are not debarred, suspended or otherwise excluded from contracting with Federal grantees.
- Include a certification with the language of debarment and suspension for the Sponsors or contractors to sign.
- Verify the sponsor or contractor in the SMA side at GSA.

In compliance with the above, the AESAN amend and included in its Compliance Agreement between AESAN and Sponsors for the NSLP and the SFSP, a Clause with the following language:

**“DESCALIFICACION Y SUSPENSION:** Al firmar el contrato, el auspiciador certifica que no están inhabilitados, suspendidos o descalificados de alguna manera para recibir fondos federales. Todos los contratistas estarán sujetos a las regulaciones aplicables a descalificación y suspensión de acuerdo con las restricciones contenidas en la sección 2 CFR parte 180 del Código de Regulación Federal, las cuales serán atenuadas a las leyes aplicables a Puerto Rico de la siguiente manera:

Certificación de No Convicción por Delitos: De conformidad con las disposiciones de la Ley 2-2018 y la Carta Circular Número 2009-01 del 9 de marzo de 2009 del Departamento de Justicia, el Auspiciador certifica y garantiza que al momento de suscribirse este Contrato ni él/ella, ni, en caso de corporaciones u otras entidades jurídicas, los oficiales, principales empleados, accionistas, miembros, o integrantes de la Junta de Directores de la corporación o entidad, ni sus afiliadas o subsidiarias o entidad matriz han sido convicto, se ha encontrado causa para arresto, o se ha declarado culpable de cualquier delito contra el erario, la fe o la función pública, contra el ejercicio gubernamental o que involucre fondos o propiedad pública en el ámbito federal o estatal u otra jurisdicción extranjera.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2020-011 – continuation

El Auspiciador reconoce su deber de informar de manera continua, durante la vigencia del Contrato, cualquier hecho que se relacione con la conducción de cualquier investigación por la comisión de un delito contra el erario, la fe o la función pública; contra el ejercicio gubernamental, que involucre fondos o propiedad pública en el ámbito federal o estatal. Esta obligación deberá ser de naturaleza continua durante todas las etapas de la contratación y ejecución del Contrato. Este Contrato será resuelto por el Departamento en caso de que contra el Auspiciador se determine causa probable para el arresto por la comisión de algún delito contra el erario, la fe o la función pública; contra el ejercicio gubernamental; o que involucre fondos o propiedad pública, en el ámbito federal o estatal.”

The NSLP and the SFSP had begun the process of notifying their sponsors of the new Agreement clause, and the process of signature of this agreement. As of September 23, 2021: the SFSP already notified and received the signed new agreements of 11 out of 14 of their sponsors. For the NSLP 6 out of 35 had signed the new agreement. To provide context on this process, it goes as follows:

1. New Agreement is sent to sponsor for signature. All sponsors should submit the document with proper signatures.
2. Failure of first stem, AESAN personnel will follow up with sponsor.
3. AESAN accountant will verify with SAM, any sponsor suspension or debarment of federal programs.
4. If the sponsor has a finding in SAM, AESAN Legal Advisor will review the case and submit a formal opinion, regarding sponsor participation.
5. If the application has all requirements, the Agreement will go for the AESAN Director signature.
6. Once properly signed, the documents will be saved on a ONE-DRIVE File.

IMPLEMENTATION DATE October 1, 2021

RESPONSIBLE PERSON Carmen Vega, (SFSP Coordinator)  
Mildred Carrasquillo, (NSLP Coordinator)  
Lourdes García Santiago (AESAN Director)

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

|   |  |
|---|--|
| <b>FINDING REFERENCE NUMBER</b>         | <b>2020-012</b>  |
| <b>FEDERAL PROGRAM</b>                  | <b>(CFDA 97.036) DISASTER GRANTS – PUBLIC ASSISTANCE (PRESIDENTIALLY DECLARED DISASTERS)<br/>U.S. DEPARTMENT OF HOMELAND SECURITY</b>  |
| <b>AWARD NUMBER</b>                     | <b>PA-02-PR-4339-PW-00526 (09/20/2017 – 03/20/2019); PA-02-PR-4339-PW-00174 (09/20/2017 – 03/20/2019)</b>  |
| <b>COMPLIANCE REQUIREMENT</b>           | <b>REPORTING</b>   |
| <b>TYPE OF FINDING</b>                  | <b>MATERIAL WEAKNESS</b>   |
| <b>CRITERIA OR SPECIFIC REQUIREMENT</b> | <p>Uniform Guidance requirements at §200.302 Financial Management requires that the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.</p> <p>As subrecipient for the program funds, PRDE was required to submit quarterly performance and financial reports (Quarterly Performance Report) for all Projects approved by FEMA and the pass-through entity. The PRDE establish the accounting system (SIFDE) as it's official accounting system for both state and Federal funds.</p>  |
| <b>CONDITION</b>                        | <p>As part of our audit procedures, we selected a sample of program reports submitted for the quarters of March 2020 and June 2020. To test compliance and internal controls for the reporting process, we requested the source documentation and financial records used for the preparation of the required reports. As a result of our tests, we noted the following:</p> <ol style="list-style-type: none"> <li>1. The PRDE rely on Microsoft's Excel spreadsheets to account for program expenditures and receipts for the report preparation. No formal procedures were in place to reconcile the information on the program reports and Excel files with the official financial records (SIFDE).</li> <li>2. The PRDE did not recognize under the program accounting codes on SIFDE all transactions reported and approved by the pass-through entity. During the audit, additional procedures and reports were needed to provide sufficient audit evidence related to the correct expenditures charge to the program and reported on the financial reports.</li> <li>3. The Excel spreadsheets used by the PRDE were developed and maintain by third-parties (consultants) and the information was not kept by program or financial staff of the PRDE.</li> </ol> |
| <b>QUESTIONED COSTS</b>                 | None.  |
| <b>CONTEXT</b>                          | A sample of six (6) reports were including on our tests.   |
| <b>EFFECT</b>                           | The PRDE has not kept proper accounting of the program activities on its accounting system as required by Federal regulations during the fiscal year under audit.  |
| <b>CAUSE</b>                            | The PRDE did not centralize the management and operation of the program at a appropriated level of management. As a result program activities were managed by different operational units within the PRDE and program staff was not trained on the program reporting requirements and adequate accounting of program funds/activities.   |

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

|   |  |
|---|--|
| <b>FINDING REFERENCE NUMBER</b>                                     | 2020-012 – continuation  |
| <b>IDENTIFICATION AS A REPEAT FINDING</b>                           | Not previously reported.   |
| <b>RECOMMENDATION</b>   | We recommend that the PRDE establishes a division within its Federal Program Office to manage the program awards. Also, adequate training on Federal program compliance requirements and reporting should be provided to the program staff. Also, a formal process must be established for reconciling the official accounting record (SIFDE) with the Federal program reports.  |
| <b>VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION</b> | <p>Since 2020, PRDE requested to Office of Management and Budget, additional headcount for the Infrastructure and Reconstruction Office (IRO) to ensure that all FEMA PA activities are performed according to requirements. We are in the approval process for such positions. Prior the audit, a reconciliation was performed between Disaster Recovery System (DRS) and SIFDE and reconciling items were identified. Related documentation was provided to the auditors and no unallowable activities were identified.</p> <p>New processes will be established to periodic reconcile both systems and corresponding reconciling items will be followed up to ensure that accurate records exist.</p> |
| <b>IMPLEMENTATION DATE</b>  | September 27, 2021   |
| <b>RESPONSIBLE PERSON</b>   | Enrique Questell Pereira – Infrastructure and Reconstruction Director  |

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**FINDING REFERENCE NUMBER** 2020-013

**FEDERAL PROGRAM** ALL FEDERAL PROGRAMS ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**AWARD NUMBER** ALL AWARDS

**COMPLIANCE REQUIREMENT** REPORTING

**TYPE OF FINDING** SIGNIFICANT DEFICIENCY

**CRITERIA OR SPECIFIC REQUIREMENT**

2 CFR §200.510 Financial Statements, (b) states that the auditee must prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended. At a minimum, the schedule must: (1) list individual Federal Programs by Federal agency, (2) for Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included, (3) provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available, (4) Include the total amount provided to subrecipients from each Federal program, (5) for loan or loan guarantee programs identify in the notes to the schedule the balances outstanding at the end of the audit period. Also the Compliance Supplement identifies that: "Transfers of Federal awards to another component of the same auditee under 2 CFR part 200, subpart F, do not constitute a subrecipient or contractor relationship".

**CONDITION**

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

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

| <b>PROGRAMS</b>  | <b>CFDA Number</b> | <b>Initial Amount Reported on the SEFA</b> | <b>Correct Amount for the SEFA</b> | <b>Final Reported Amount on the SEFA</b> | <b>Differences</b> |
|--|--------------------|--|------------------------------------|--|--------------------|
| <b><u>Incorrect Amount Pass-Through Subrecipients:</u></b> |                    |  |                                    |  |                    |
| Grants to States   | 45.310             | \$ 668,256                                 | \$ 217,565                         | \$ 217,565                               | \$ -               |
| Twenty-First Century Community Learnibng Centers           | 84.287             | 12,142,232                                 | 13,041,239                         | 13,041,239                               | -                  |
| Adult Education - State Grant Program                      | 84.002             | 2,013,996                                  | 1,771,110                          | 1,771,110                                | -                  |
| National School Lunch Program                              | 10.555             | 79,801,799                                 | 4,243,603                          | 79,801,799                               | (75,558,196)       |
| Child and Adult Care Food Program                          | 10.558             | 15,604,679                                 | 15,604,679                         | 15,604,679                               | -                  |
| Summer Food Service Program for Children                   | 10.559             | 10,640,295                                 | 4,416,166                          | 10,640,295                               | (6,224,129)        |
| Fresh and Fruit Vegetables Program                         | 10.582             | 165,877                                    | 16,532                             | 165,877                                  | (149,345)          |
| Schools Meals Equipment                                    | 10.579             | 190,092                                    | 190,092                            | 190,092                                  | -                  |

continue

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**FINDING REFERENCE NUMBER** 2020-013 – continuation

| <b>PROGRAMS</b>                                     | <b>CFDA<br/>Number</b> | <b>Initial Amount<br/>Reported on<br/>the SEFA</b> | <b>Correct<br/>Amount for<br/>the SEFA</b> | <b>Final Reported<br/>Amount on<br/>the SEFA</b> | <b>Differences</b> |
|---|------------------------|--|--|--|--------------------|
| <b><u>Incorrect Amount:</u></b>                     |                        |  |  |  |                    |
| Child Nutrition Cluster - Commodities               | 10.555                 | 9,864,251  | 9,974,150                                  | 9,974,150  | -                  |
| <b><u>Misclassified Program:</u></b>                |                        |  |  |  |                    |
| Grants for State Assessments and Related Activities | 84.369                 | 1,718,462  | 5,722,536                                  | 5,722,536  | -                  |
| Improving Teacher Quality State Grants              | 84.367                 | 69,235,515   | 65,231,441                                 | 65,231,441                                       | -                  |

**QUESTIONED COSTS** None.

**CONTEXT** This deficiency is a systemic problem not previously reported on the prior years' Single Audits.

**EFFECT** The PRDE may fail to include all Federal programs and total expenditures in the SEFA causing misstatements in the schedule, errors in the determination if a Single Audit is required to the PRDE and could cause an incorrect Major Program Determination performed by the auditor, resulting most likely in the exclusion of a Major Program for audit purpose.

**CAUSE** The PRDE failed to identify the correct Federal grants expenditures transactions incurred during the fiscal year and to keep records of the transactions related to the Federal programs in order to properly identify the Federal programs and transactions when the SEFA is prepared causing the preparation of an incomplete and misstated SEFA. Specifically an adjustment within Federal programs was incorrectly posted on the PRDE's accounting records that cause a material misstatement for a major program. Regarding the pass-through to subrecipient amounts, there is a lack of consistency on the expenditure account use for the recording of payments to subrecipients entities within the different programs administer by the PRDE. This lack of consistency causes the need for several adjustments to the SEFA amounts related to subrecipients. Also, the PRDE includes on the SEFA amounts of funds Federal awards transfers from one operating office of the PRDE to another office within the PRDE.

**IDENTIFICATION AS A REPEAT FINDING** Not previously reported.

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



SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2020-013 – continuation

IEWS OF RESPONSIBLE  
OFFICIALS AND PLANNED  
CORRECTIVE ACTION

The Department of Education (PRDE) has always been committed to disclose and present the financial information accurately and in compliance with local and federal regulations. However, during the current fiscal year there was a case where a disbursement was classified in a federal program that did not correspond to it. This human error, occurred because during the preparation of the financial database, the PRDE utilized a query to prepare such database that did not automatically bring the CFDA number directly from the financial system. However, the PRDE immediately created a query that in an automatic way directly reads that information from the grants module, avoiding the manual processes carried out during this fiscal year to ascertain the financial information to be reported. With this corrective action, this situation will not occur subsequently.

Regarding the matter of subrecipient amounts, PRDE understands the responsibility related to perform adequately as a pass-through entity because the Agency receives different grants that operate in this manner. In such programs, sub-awards are authorized to entities and, accordingly, payments are made to subrecipients.

Pertain to this topic, PRDE report subrecipient disbursements based on federal program understanding. Each federal program has its peculiarities in terms of type of entities that participate as subrecipients, payments, reports and account numbers, among other factors. Therefore, we understand that standardizing this type of transaction in a single process is not feasible.

However, PRDE will ensure to obtain a certification from each federal program containing the specific financial criteria that is used in the financial system to identify such transactions during the preparation of the Schedule of Expenditures of Federal Awards every year, to ensure PRDE presents them as the subrecipients amounts.

IMPLEMENTATION DATE September 22, 2021

RESPONSIBLE PERSON Evelyn Rodríguez Cardé, Finance Director

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

|   |   |
|---|---|
| <b>FINDING REFERENCE NUMBER</b>         | <b>2020-014</b>   |
| <b>FEDERAL PROGRAM</b>                  | (CFDA NO. 84.007) FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS (FSEOG) (STUDENT FINANCIAL ASSISTANCE CLUSTER (CFDA NO. 84.033) FEDERAL WORK-STUDY PROGRAM (FWS) (CFDA NO. 84.063) FEDERAL PELL GRANT PROGRAM (PELL) U.S. DEPARTMENT OF EDUCATION   |
| <b>AWARD NUMBER</b>                     | PPA OPE ID: 02241900 (03/19/2019 – 12/31/2021)  |
| <b>COMPLIANCE REQUIREMENT</b>           | <b>SPECIAL TEST AND PROVISIONS – DISBURSEMENT TO OR ON BEHALF OF STUDENTS</b>   |
| <b>TYPE OF FINDING</b>                  | <b>MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS</b>   |
| <b>CRITERIA OR SPECIFIC REQUIREMENT</b> | <p>Per 34 CFR 668.164 (a), a disbursement of title IV, HEA program funds occurs on the date that the institution credits the student's ledger account or pays the student or parent directly with (i) Funds received from the Secretary; or (ii) Institutional funds used in advance of receiving title IV, HEA program fund.</p> <p>Per 34 CFR 668.16 the Secretary considers an institution to have that administrative capability if the institution: (a) administers the Title IV, HEA programs in accordance with all statutory provisions of or applicable to Title IV of the HEA, all applicable regulatory provisions prescribed under that statutory authority, and all applicable special arrangements, agreements, and limitations entered into under the authority of statutes applicable to Title IV of the HEA; (c)(1) administers Title IV, HEA programs with adequate checks and balances in its system of internal controls; (d)(1) establishes and maintains records required under this part and the individual Title IV, HEA program regulations.</p> <p>Per 34 CFR 668.24 (c)(1) the records that an institution must maintain in order to comply with the provisions of this section include but are not limited to: (iv) Documentation relating to each student's or parent borrower's receipt of title IV, HEA program funds, including but not limited to documentation of – (A) The amount of the grant, loan, or FWS award; its payment period; its loan period, if appropriate; and the calculations used to determine the amount of the grant, loan, or FWS award; (B) The date and amount of each disbursement or delivery of grant or loan funds, and the date and amount of each payment of FWS wages; (C) The amount, date, and basis of the institution's calculation of any refunds or overpayments due to or on behalf of the student, or the treatment of title IV, HEA program funds when a student withdraws; and (D) The payment of any overpayment or the return of any title IV, HEA program funds to the title IV, HEA program fund, a lender, or the Secretary, as appropriate.</p> <p>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.</p> <p>According to the 34 CFR 675.16 the student's wages are earned when the work is performed. The institution shall ensure that the student is paid at least once per month. The federal share must be paid by check or similar instrument the student can cash on his or her endorsement, or as authorized by the student, by crediting FWS funds to a student's account or by EFT to a bank account designated by the student. The institution may only credit the account for tuition, fees, institutional room and board, and other institution-provided goods and services.</p> |

continue

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**FINDING REFERENCE NUMBER**      **2020-014 – continuation**

**CONDITION**

The following deficiencies were found:

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

**QUESTIONED COSTS**

None.

**CONTEXT**

This represents a systematic problem per our evaluation. The PRDE should assure that all students that were included in the SEOG Awards Student List 2020, are eligible participants for this award and received the SEOG Awards payments during the fiscal year 2020.

**EFFECT**

The PRDE prepares an unreliable SEOG Awards Student List that was deliver to the auditor, representing such Population with a doubtful completeness.

Provisional Certification:

The PRDE could remain in the restricted provisional basis (Provisional Certification) stated in Program Participation Agreement (PPA). This provisional certification is granted for a limited period to permit the Institution to participate in the Title IV, HEA programs referenced in this agreement. During the period of provisional certification, the participation of the Institution will be subject to revocation for cause.

Reasons and Special Conditions of Provisional Certification – Deficiencies in Administrative Capability

Recent audits and/or a recent program review of the institution's performance of its responsibilities as a participant in the Title IV, HEA programs have disclosed serious, repeated or systemic deficiencies that directly relate to the regulatory elements identified in 34 CFR 668.16. These regulatory elements are essential to an acceptable level of administrative capability. Accordingly, the institution's participation in the Title IV, HEA programs will be restricted to a provisional basis. Upon the expiration of the PPA, return to a non-provisional basis will occur only when the institution is able to demonstrate that its level of administrative capability is commensurate with the standards established in the referenced regulation.

(Refer to PPA. OPE ID: 02241900, Provisional Certification)

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2020-014 – continuation

**CAUSE** The PRDE failed to review the documentation related to the calculation of the COA performed by the personnel in charge. The PRDE failed to maintain updated the list of the student eligible for SEOG awards 2020 with the SEOG payments issued to student during the fiscal year 2020. In addition, the PRDE failed to appropriate monitoring the elapsing time between the student credited balance by the institution and the deadline for the appropriate time of issuance the student payment for PELL, SEOG and FWS.

**IDENTIFICATION AS A REPEAT FINDING** For Condition one (1) is not previously reported. For Condition two (2), this is a repeat finding (Finding Reference Numbers 2019-012 and 2019-013).

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

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION**

**Management Response for Finding 2020-014-1**

Management concurs with the auditors finding however this was previously mentioned and responded to as Finding 2020-003-8.

**Management Response for Finding 2020-014-2a**

Management does not concur with the auditors finding. It must also be pointed out that PRDE has acquired a new system (Orbound), that will fully automate PRDE processes. The system is fully computerized, so all the documentation will be automatically created and, in this way, avoiding manual processes.

***Auditor Comment on Management Response for Finding Reference No. 2020-014 - 2. a.***

As stated in CONDITION 1. for one (1) student, we noted that it was included in the SEOG Awards Student List for the 2nd Semester 2019-2020, when there was a determination by the PRDE to does not issue a SEOG payment in favor of such student. This information was presented to the person in charge, Kelvin Pagán La Luz and he informed by email on September 24, 2024: "The SEOG Awards Student List that was reviewed was a preliminary list and the official list never included the student in question. Also in the students' packaging the SEOG award it was not reflected." That information never was presented to our Auditors and constitute a scope limitation in our procedures. The Finding was prevailed and correspond to the US Department of Education the final determination.

**Management Response for Finding 2020-014-2b**

Managements concur with the finding. It must be pointed out that at the time of this period audit; PRDE was transitioning from issuing checks to the students to Direct Deposit. These students, referenced in the audit, did not complete the required documentation for the direct deposit at that time. Presently once a student's enrolls this direct deposit documentation is part of the enrollment process.

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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FINDING REFERENCE NUMBER      2020-014 – continuation

**Management Response for Finding 2020-014-2c**

Managements concur with the finding. It must be pointed out that at the time of this period audit; PRDE was transitioning from issuing checks to the students to Direct Deposit. These students referenced in the audit did not complete the required documentation for the direct deposit at that time. Presently once a student's enrolls this direct deposit documentation is part of the enrollment process.

**Management Response for Finding 2020-014-2d**

Managements concur with the finding. This issue was caused because of the irregular work schedule of the PRDE staff due to the COVID-19 protocols instituted by the government of Puerto Rico. It must also be pointed out that these students also do not participate in the direct deposit.

IMPLEMENTATION DATE              Already Implemented

RESPONSIBLE PERSON                Kelvin Pagán La Luz, Director of Technical Education Division

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

|   |  |
|---|--|
| <b>FINDING REFERENCE NUMBER</b>         | <b>2020-015</b>  |
| <b>FEDERAL PROGRAM</b>                  | <b>(CFDA 84.287) TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS<br/>U.S. DEPARTMENT OF EDUCATION</b>  |
| <b>AWARD NUMBER</b>                     | <b>S287C170039 (07/01/2017 – 09/30/2021), S287C180039 (07/01/2018 – 09/30/2021)</b>  |
| <b>COMPLIANCE REQUIREMENT</b>           | <b>SUBRECIPIENT MONITORING</b>   |
| <b>TYPE OF FINDING</b>                  | <b>NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY</b>  |
| <b>CRITERIA OR SPECIFIC REQUIREMENT</b> | Section 200.331, Requirements for Pass-through Entities of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the OMB Compliance Supplement requires pass-through entities to issue a management decision for audit findings pertaining to the Federal award provided to the subrecipients from the pass-through entity as required by 200.521, Management decision. In order to comply with this requirement the PRDE established an internal procedure for the Single Audits reviews within the Program's Manual. The PRDE procedure requires all entities must submit either a Single Audit Report, a Program Specific Audit, or if those reports are not applicable, then the audited financial statements were required with a special agreed-upon procedure report to determined compliance with the contract clauses must be submitted by the subrecipients. Also, the program manual states the principles to determine which entities will be visited for on-site monitoring and which will be cover by other type of monitoring (desk review, others).  |
| <b>CONDITION</b>                        | As part of our audit procedures, we obtained the list of subrecipients active during the fiscal year 2019-2020, monitoring visit schedules and disbursements made. We selected a sample of six (6) subrecipients to test compliance with internal control policies and compliance with the subrecipient monitoring requirement. We noted the following deficiencies during our tests: <ol style="list-style-type: none"> <li>1. For one (1) subrecipient, we did not find any evidence of the receipt of the Single Audit Report or the required financial statements and special agreed-upon procedure report. Also, we review the Federal Audit Clearinghouse, but no information was found for this subrecipient.</li> <li>2. For one (1) subrecipient, we could only find on the file copy of the audited financial statements. In accordance with the PRDE's program manual and award contract, the entity was required to submit the special agreed-upon procedure report but it was not submitted.</li> <li>3. For one (1) subrecipient, the PRDE program staff incorrectly identify the report received as Program Specific Audit when in fact the subrecipient only submitted the audited financial statements and the special agreed-upon procedures report. Based on the PRDE staff determination and the information included on the financial statements, the subrecipient should have submitted a Single Audit Report or if the program was the only source of Federal expenditures, a program Specific Report. However, the PRDE staff failed to correctly identify the reports received and no further actions were taken to receive the correct reporting from the subrecipient.</li> </ol> |
| <b>QUESTIONED COSTS</b>                 | None.  |
| <b>CONTEXT</b>                          | A sample of six (6) entities was selected for test purposes out of a total subrecipient list of twenty-three (23) entities that received program funds.  |
| <b>EFFECT</b>                           | The PRDE does not maintain an internal control process that provides reasonable assurance of complying with the requirement of receipt, evaluation and issuance of management decisions as required by Federal regulations and the require corrections of any findings and disposition of questioned costs within the required timeframes of the Federal regulations from audit or monitoring process.   |

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

|   |  |
|---|--|
| <b>FINDING REFERENCE NUMBER</b>                                     | 2020-015 – continuation  |
| <b>CAUSE</b>  | The program staff has not received adequate training on the proper identification of the required reports from subrecipients regarding this compliance requirement.  |
| <b>IDENTIFICATION AS A REPEAT FINDING</b>                           | Not previously reported.   |
| <b>RECOMMENDATION</b>   | We recommend that adequate training be provided to the program staff in charge of the monitoring functions of the program in order to comply with the on-site monitoring visits and the correct evaluation of the audit reports that the subrecipients must submit and be evaluated to comply with this requirement.   |
| <b>VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION</b> | <p>PRDE recognize that for the first two conditions, the Agreed Upon Procedures (AUP) were not received as a substitute of the single audit, since federal funds did not exceed the required threshold for the audit.</p> <p>As a corrective action plan, the program will require the corresponding reports for these subrecipients, and will assess any corrective action for them. Also, the program will be monitoring that all subrecipients financial requirements are received in the corresponding period.</p> <p>On the other hand, condition number three only makes reference to an incorrect identification of the report submitted. However, the AUP were received and analyzed by the program.</p> <p>The program will continue to enforce policies and procedures by training all necessary staff on timeliness of procedures. As part of the training to the staff, the program will ensure that all financial information is received and analyzed. These measures will be implemented immediately.</p> <p>We want to emphasize that for all subrecipients, the program has sufficient evidence that performed monitoring activities to its sub-grantees throughout the fiscal year. As part of the monitoring activities that were performed, sub recipients were subject to on-site programmatic and fiscal monitoring, invoices interventions before disbursement, review and approval of budget transfers, and evaluation of achievement reports, validating that performance goals were met.</p> |
| <b>IMPLEMENTATION DATE</b>  | Current Fiscal Year  |
| <b>RESPONSIBLE PERSON</b>   | Richard W. Cruz Franqui, Auxiliary Secretary for Federal Affairs<br>Luis Oppenheimer, 21 <sup>st</sup> Program Coordinator   |

continue

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

|   |   |
|---|---|
| <b>FINDING REFERENCE NUMBER</b>         | <b>2020-016</b>   |
| <b>FEDERAL PROGRAM</b>                  | <b>(CFDA 84.002) ADULT EDUCATION – BASIC GRANTS TO STATES<br/>U.S. DEPARTMENT OF EDUCATION</b>  |
| <b>AWARD NUMBER</b>                     | <b>V002A190053 (07/01/2019 – 09/30/2021)</b>  |
| <b>COMPLIANCE REQUIREMENT</b>           | <b>SUBRECIPIENT MONITORING</b>  |
| <b>TYPE OF FINDING</b>                  | <b>NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY</b>   |
| <b>CRITERIA OR SPECIFIC REQUIREMENT</b> | Section 200.331, Requirements for Pass-through Entities of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the OMB Compliance Supplement requires pass-through entities to issue a management decision for audit findings pertaining to the Federal award provided to the subrecipients from the pass-through entity as required by 200.521, Management decision. Also, entities that pass-through funds to subrecipients must: Evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR section 200.331(b)) and Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.331(d) through (f)). In addition to procedures identified as necessary based upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following: Reviewing financial and programmatic (performance and special reports) required by the PTE; and Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means. |
| <b>CONDITION</b>                        | As part of our audit procedures, we obtained the list of active subrecipients and subrecipients that received funds during the fiscal year 2019-2020, requested the risk assessment documentation, on site monitoring visits, and documentation regarding the Single Audit report receipt, evaluation and management decisions process. We selected a sample of eight (8) subrecipients to test compliance with internal control policies and compliance with the subrecipient monitoring requirement. We noted the following deficiency during our tests: <ol style="list-style-type: none"> <li>1. On one (1) subrecipient we noted that the Schedule of Expenditures of Federal Awards did not include the expenditures of the program for the years ended 6/30/2018, 6/30/2019 nor 6/30/2020. Therefore, the program was not included within the scope of the subrecipient audit of Federal programs, and the PRDE staff did not made available their evaluation for this subrecipient.</li> </ol>  |
| <b>QUESTIONED COSTS</b>                 | None.   |
| <b>CONTEXT</b>                          | A sample of six (6) entities was selected for test purposes out of a total subrecipient list of ten (10) entities that received program funds.  |
| <b>EFFECT</b>                           | The PRDE does not maintain an internal control process that provides reasonable assurance of complying with the requirement of receipt, evaluation and issuance of management decisions as required by federal regulations and the required corrections of any findings and disposition of questioned costs within the required timeframes of the Federal regulations from audit or monitoring process.   |

continue



SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

|   |   |
|---|---|
| <b>FINDING REFERENCE NUMBER</b>                                     | 2020-016 – continuation   |
| <b>CAUSE</b>  | The program staff has not received adequate training on the proper identification of the required reports from subrecipients regarding this compliance requirement. Also, no monitoring activities were performed during the year to provide reasonable assurance that activities and funds transfers to subrecipients were used in accordance with program requirements and the subrecipient required to comply with the Single Audit requirements included the program funds on the Schedule of Expenditures of Federal Awards and the funds were subject to the auditor's procedures at the subrecipient level.  |
| <b>IDENTIFICATION AS A REPEAT FINDING</b>                           | Not previously reported.  |
| <b>RECOMMENDATION</b>   | We recommend that adequate training be provided to the program staff in charge of the monitoring functions of the program in order to comply with the on-site monitoring visits and the correct evaluation of the audit reports that the subrecipients must submit and be evaluated to comply with this requirement.  |
| <b>VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION</b> | PRDE is committed to comply with all federal and state regulations applicable to programs within the Agency. Consequently, the Agency has taken steps to strengthen internal controls, develop guidelines and procedures for completing reports, and other tasks related to meeting requirements. As we recognize that this is an ongoing process, the program will continue to enforce policies and procedures by training all necessary staff on timeliness of procedures. As part of the training to the staff, the program will ensure deeply review the financial information included in the subrecipients' Schedule of Expenditures of Federal Awards in this way, ensuring that the program fully complies with the monitoring process. |
| <b>IMPLEMENTATION DATE</b>  | Current Fiscal Year   |
| <b>RESPONSIBLE PERSON</b>   | Yarilis Santiago Ramos, Director of Alternative Education   |

continue

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

|   |  |
|---|--|
| <b>FINDING REFERENCE NUMBER</b>         | <b>2020-017</b>  |
| <b>FEDERAL PROGRAM</b>                  | <b>(CFDA 10.558) CHILD AND ADULT CARE FOOD PROGRAM<br/>U.S. DEPARTMENT OF AGRICULTURE</b>  |
| <b>AWARD NUMBER</b>                     | <b>202020N109941 (07/20/2019 – 06/30/2021), 201919N109941 (07/20/2018 – 06/30/2020)</b>  |
| <b>COMPLIANCE REQUIREMENT</b>           | <b>SUBRECIPIENT MONITORING</b>   |
| <b>TYPE OF FINDING</b>                  | <b>MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS</b>  |
| <b>CRITERIA OR SPECIFIC REQUIREMENT</b> | Section 200.331, Requirements for Pass-through Entities of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the OMB Compliance Supplement requires pass-through entities to issue a management decision for audit findings pertaining to the Federal award provided to the subrecipients from the pass-through entity as required by 200.521, Management decision. In order to comply with this requirement the PRDE established an internal procedure for the Single Audits reviews ("Procedimiento para el Informe de la Auditoría Unica "Single Audit"). The PRDE procedure requires that an Excel worksheet for the Single Audit follow-up ("Hoja de Trabajo de Seguimiento de la Auditoría Unica") must be maintained to track the filling of reports on the Federal Audit Clearinghouse (FAC) and the management decision process. Among other information, the worksheet must include the date the subrecipient Single Audit report is received at the FAC, the number of findings related to the program, date of the Corrective Action Plan, and when resolution letters were sent, if any.  |
| <b>CONDITION</b>                        | <p>As part of our audit procedures, we obtained a copy of the worksheet for the Single Audit follow-up ("Hoja de Trabajo de Seguimiento de la Auditoría Unica") for the year 2019-2020. We noted the following deficiencies on the worksheet:</p> <ol style="list-style-type: none"> <li>1. For one (1) subrecipient, Single Audit Report received at FAC date was noted as 8/7/2019; however, the subrecipient applicable fiscal year end was correctly noted at 9/30/2019. We reviewed the FAC and the correct date of the report receipt at the FAC was 08/07/2020.</li> <li>2. For three (3) subrecipients, the worksheet did not include the information regarding if there were findings for the program. There was no information included on the relevant cells of the worksheet. No information was available on the worksheet to determine if there were audit findings that needed follow-up, CAPs or management decisions.</li> <li>3. For three (3) subrecipients, the date of issuance of a management decision ("Decision Administrativa") was June 10, 2019; however, the audit report receive date at the FAC were 7/24/2020, 3/21/2020 and 3/18/2020, respectively. The accountant that prepares the worksheet indicated that the information was not updated from the previous year worksheet.</li> <li>4. Two (2) subrecipients selected for test purposes were not included on the worksheet. We reviewed the information for the two (2) subrecipients on the FAC and noted that the reports were received at the FAC on 3/30/2020 and 5/6/2020. However, these entities were not included on the control worksheet and their SAR were not evaluated prior to our tests.</li> <li>5. At the moment of our tests, we requested copy of the worksheet for our records and to perform our tests. The accountant that maintains the control worksheet kept the file on a USB bracelet tied to a personal backpack kept in his work space.</li> </ol> |
| <b>QUESTIONED COSTS</b>                 | None.  |
| <b>CONTEXT</b>                          | A sample of thirteen (13) entities was selected for test purposes out of a total subrecipient list of one hundred thirteen (113) entities that received program funds.   |

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

|   |  |
|---|--|
| <b>FINDING REFERENCE NUMBER</b>                                     | 2020-017 – continuation  |
| <b>EFFECT</b>   | The PRDE does not maintain an internal control process that provides reasonable assurance of complying with the requirement of receipt, evaluation and issuance of management decisions as required by Federal regulations and the require corrections of any findings and disposition of questioned costs within the required timeframes of the Federal regulations.  |
| <b>CAUSE</b>  | The procedure developed by the PRDE lacks a formal process of notification of all subrecipients that must submit audit reports to the FAC to the accountant that kept the worksheet in order for him to include all such entities on the control worksheet. Also, there is no requirement to the subrecipients that requires them to directly inform the PRDE that the entity was subject to the Single Audit and the report was submitted to the FAC or that requires the subrecipients to send copy of the single audits reports directly to the program accountants. Also, there was no adequate review of the worksheet by supervisory personnel to determine if the information on the worksheet was complete and correct.  |
| <b>IDENTIFICATION AS A REPEAT FINDING</b>                           | Not previously reported.   |
| <b>RECOMMENDATION</b>   | We recommend that the current procedure is amended to include the requirement for the subrecipients to make a formal notification to the PRDE's program staff the Single Audit is applicable or not at the end of each fiscal year when funds were pass-through by the PRDE. Also, to formally notify the PRDE staff when the reports are submitted to the FAC. Internally, the accountant must receive a list of the contracts/grant awarded to subrecipients during each fiscal year in order to keep the control worksheet complete.  |
| <b>VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION</b> | <p>After analyzing and reviewing the previous reports, AESAN agrees with he findings. Since August 18, 2021, we have taken administrative measures and assigned the personnel to accomplish the compliance requirements that will be detailed as follows:</p> <ol style="list-style-type: none"><li>1. A file has been created in SharePoint that contains a bank of blank templates to be used for each fiscal year to avoid reusing old ones that can lead to manual input errors.</li><li>2. AESAN has created an Excel worksheet to document the institutions to which the single audit applies. The administrative assistance will use the worksheet to validate all SAR submissions against the list of institutions. Afterwards, it will be reviewed by the Program Coordinator before the accountant performs the analysis and logs in the control worksheet.</li><li>3. A file has been created in SharePoint to contain a bank of blank templates to be used for each fiscal year to avoid reusing old ones that can lead to manual input errors.</li><li>4. A file has been created in SharePoint to contain a bank of blank templates to be used for each fiscal year to avoid reusing old ones that can lead to manual input errors.</li><li>5. A SharePoint file has been created to transfer all existing files from all existing USBs. For the next FY a Share Point link will be enabled for each sponsor to upload a copy of the SAR submitted to the FAC. Prospectively, all worksheets and SARs will be stored in SharePoint.</li></ol> <p>As of September 23, 2021, the actions above describe are accomplish, and corrective measures had been taken.</p> <p>*** Lastly it was found as the CAUSE, that our agency lacks a formal process to notification of all subrecipients for submission of audit reports; No requirement for subrecipients to inform us that there were subject to the Single Audit, and no adequate review of the information on the worksheet.</p> |

continue

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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FINDING REFERENCE NUMBER    2020-017 – continuation

Attending this matter, AESAN has development a notification letter, that will be sent to all subrecipients at the beginning of the fiscal year (first notification will be sent on October 1, 2021) stating:

- 1) SAR compliance
- 2) Spending limits
- 3) Instructions for sending the SAR as soon as it is submitted to the clearing house.

Currently institutions are notified at the time of signing the agreement with the agency, as this is stipulated in the compliance clauses of the agreement.

IMPLEMENTATION DATE        October 1, 2021

RESPONSIBLE PERSON        José Narvaez Pares, Accountant I, CAFCP  
Evelyn F. López, CACFP Coordinator  
Lourdes Santiago García, AESAN Director

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

|   |   |
|---|---|
| <b>FINDING REFERENCE NUMBER</b>         | <b>2020-018</b>   |
| <b>FEDERAL PROGRAM</b>                  | <b>(CFDA 45.310) GRANTS TO STATES<br/>NATIONAL ENDOWMENT OF THE HUMANITIES</b>  |
| <b>AWARD NUMBER</b>                     | <b>LS-00-17-0054-17 (10/01/2016 – 09/30/2019); LS-00-18-0054-18 (10/01/2017 – 09/30/2019);<br/>LS-00-19-0054-19 (10/01/2018 – 09/30/2020)</b>   |
| <b>COMPLIANCE REQUIREMENT</b>           | <b>SUBRECIPIENT MONITORING</b>  |
| <b>TYPE OF FINDING</b>                  | <b>MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS</b>   |
| <b>CRITERIA OR SPECIFIC REQUIREMENT</b> | <p>Section 200.331, Requirements for Pass-through Entities of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the OMB Compliance Supplement requires pass-through entities to issue a management decision for audit findings pertaining to the Federal award provided to the subrecipients from the pass-through entity as required by 200.521, Management decision. Also, entities that pass-through funds to subrecipients must: Evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR section 200.331(b)) and Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.331(d) through (f)). In addition to procedures identified as necessary based upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following: Reviewing financial and programmatic (performance and special reports) required by the PTE; and Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.</p>  |
| <b>CONDITION</b>                        | <p>As part of our audit procedures, we obtained the list of subrecipients active during the fiscal year 2019-2020, requested the risk assessment documentation, monitoring visit schedules and documentation regarding the Single Audit report receipt, evaluation and management decisions process. We selected a sample of five (5) subrecipients to test compliance with internal control policies and compliance with the subrecipient monitoring requirement. We noted the following deficiencies during our tests:</p> <ol style="list-style-type: none"> <li>1. Through interviews with the program staff that administers the funds at the PRDE and review of the subrecipient files provided to us, we noted that there was no risk assessment process made as part of the subrecipient monitoring activities during the fiscal year 2019-2020, Also, there were no on-site monitoring visits or desk reviews performed during audited period.</li> <li>2. We requested our audit sample to test compliance with the audit resolution of the Single Audit Reports of subrecipients on September 4, 2021, after various follow-up to our request, the information was made available on September 10, 2020. On our test, we noted that the PRDE requested the subrecipients included on the sample to provide their audit reports on emails send to each subrecipient during the period from September 3, 2021 to September 6, 2021. There were no other requests or receipt of information prior to the dates mentioned before. This indicates that there were no adequate internal controls in place at the PRDE that provided reasonable assurance of complying with this requirement.</li> <li>3. From the requests made by the Department mentioned on the previous item, the Department complete the evaluation of the reports received on September 9, 2021. Two (2) subrecipients were not subject to the Single Audit requirements and three (3) were subject to the Single Audit requirements.</li> </ol> |

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2020-018– continuation

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

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

QUESTIONED COSTS None.

CONTEXT A sample of five (5) entities was selected for test purposes out of a total subrecipient list of twelve (12) entities that received program funds.

EFFECT The PRDE does not maintain an internal control process that provides reasonable assurance of complying with the requirement of receipt, evaluation and issuance of management decisions as required by Federal regulations and the require corrections of any findings and disposition of questioned costs within the required timeframes of the Federal regulations from audit or monitoring process. Also, the PRDE is not in compliance with the require risk evaluation process and the subrecipient monitoring (on-site or desk reviews procedures).

CAUSE The program staff has not received adequate training on the proper identification of the required reports from subrecipients regarding this compliance requirement. Also, no monitoring activities were performed during the year to provide reasonable assurance that activities and funds transfers to subrecipients were used in accordance with program requirements and the subrecipient required to comply with the Single Audit requirements included the program funds on the Schedule of Expenditures of Federal Awards and the funds were subject to the auditor's procedures at the subrecipient level.

IDENTIFICATION AS A REPEAT FINDING Not previously reported.

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

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2020-018– continuation

IEWS OF RESPONSIBLE  
OFFICIALS AND PLANNED  
CORRECTIVE ACTION

PRDE concurs with the condition. As a corrective action plan, the program will be developing robust monitoring activities based on risk assessment process for the subrecipients. These procedures will include both on-site and desk monitoring, depending on the risk assessment results. However, PRDE wants to emphasize that the program reviews expenses reports received by subrecipients and analyze and question any incongruity between funds approved and information received.

Related to condition number two and three, PRDE acknowledge that the information was requested and obtained after audit fiscal year, however the program reviewed the financial information provided by the subrecipients and any recommendation for future periods was documented during the review of financial statements.

PRDE is committed to comply with all federal and state regulations applicable to programs within the Agency. Consequently, the Agency has taken steps to strengthen internal controls, develop guidelines and procedures for completing reports, and other tasks related to meeting these requirements. As we recognize that this is an ongoing process, the program will continue to enforce policies and procedures by training all necessary staff on timeliness of procedures. Also, as part of the training to the staff, the program will ensure to deeply review the financial information included by the subrecipients, in this way ensuring that the program fully complies with the monitoring process.

IMPLEMENTATION DATE In process

RESPONSIBLE PERSON Héctor M. Reillo Cotto, Program Manager

END OF SCHEDULE

DRAFT

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(1) **AUDIT FINDINGS THAT HAVE BEEN FULLY CORRECTED:**

**Findings Related to the Financial Statement:**

**FISCAL YEAR 2019**

**Finding Number**                      **2019-001**      **Internal Control / Compliance**  
 Duplicated payments issued during the fiscal year.

**Auditee Comments**                      As per Final Audit Determination (Audit Control Number 02-19-19412) dated June 11, 2021, received from the US Department of Education (Department), they accepted the corrective action taken by PRDE to resolve this finding for CFDA No. 84.002 and 84.048 programs without recovery of funds.

As per implementation of the specific conditions on all of its grant awards to PRDE to procure the services of a third-party fiduciary agent (TPFA), accepted to the Department, the TPFA will perform financial management duties currently performed by Puerto Rico and PRDE to correct the deficiencies identified by the auditors in this finding, the Department consider this finding resolved.

However, the Department's Office of Acquisition and Grant Administration will continue to monitor the PRDE's compliance with the specific conditions.

**Findings Related to the Federal Programs:**

**FISCAL YEAR 2018**

**Finding Number**                      **2018-007**      **Matching, Level of Effort, Earmarking**  
 Difference in proportion of compensation of students employed in community services, and supporting documentation to substantiate the assigned and disbursement amounts to Technology Institutes.

**CFDA Numbers**                      84.007, 84.033, 84.063: Student Financial Assistance Cluster

**Auditee Comments**                      As per Final Audit Determination (Audit Control Number 02-17-11891) dated June 7, 2021, received from the US Department of Education, they accepted the corrective action taken by PRDE to resolve this finding.

**Finding Number**                      **2018-008**      **Matching, Level of Effort, Earmarking**  
 Difference in proportion of compensation of students employed in community services, and supporting documentation to substantiate the assigned and disbursement amounts to Technology Institutes.

**CFDA Numbers**                      84.048              Career and Technical Education – Basic Grants to States

**Auditee Comments**                      As per Final Audit Determination (Audit Control Number 02-19-19412) dated June 11, 2021, received from the US Department of Education, they determined to approve a waiver request for the MOE requirement for FFY's 2016 through 2019.

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

|                         |  |  |
|-------------------------|--|--|
| <b>Finding Number</b>   | <b>2018-010</b>  | <b>Reporting</b><br>Difference in in FISAP Report with disbursement accounting records.  |
| <b>CFDA Numbers</b>     | 84.007, 84.033, 84.063: Student Financial Assistance Cluster   |  |
| <b>Auditee Comments</b> | As per Final Audit Determination (Audit Control Number 02-17-11891) dated June 7, 2021, received from the US Department of Education, they accepted the corrective action taken by PRDE to resolve this finding. |  |
| <b>Finding Number</b>   | <b>2018-015</b>  | <b>Procurement and Suspension and Debarment</b><br>Procurement policies and procedures not in compliance.  |
| <b>CFDA Numbers</b>     | All Major Programs   |  |
| <b>Auditee Comments</b> | As per Final Audit Determination (Audit Control Number 02-19-19412) dated June 11, 2021, received from the US Department of Education, they stated that it does not sustain this findings.                       |  |
| <b>Finding Number</b>   | <b>2018-016</b>  | <b>Special Test and Provisions – Disbursement To or On Behalf of Students</b><br>PRDE did not provide evidence of reporting the adjustments made through the COD System.   |
| <b>CFDA Numbers</b>     | 84.007, 84.033, 84.063: Student Financial Assistance Cluster   |  |
| <b>Auditee Comments</b> | As per Final Audit Determination (Audit Control Number 02-17-11891) dated June 7, 2021, received from the US Department of Education, they accepted the corrective action taken by PRDE to resolve this finding. |  |
| <b>Finding Number</b>   | <b>2018-018</b>  | <b>Special Test and Provisions – Disbursement To or On Behalf of Students</b><br>Delay payments to students.   |
| <b>CFDA Numbers</b>     | 84.007, 84.033, 84.063: Student Financial Assistance Cluster   |  |
| <b>Auditee Comments</b> | As per Final Audit Determination (Audit Control Number 02-17-11891) dated June 7, 2021, received from the US Department of Education, they accepted the corrective action taken by PRDE to resolve this finding. |  |
| <b>FISCAL YEAR 2019</b> |  |  |
| <b>Finding Number</b>   | <b>2019-001</b>  | <b>Allowable Costs/Costs Principles</b><br>Duplicated payments issued during the fiscal year.  |
| <b>CFDA Numbers</b>     | 10.559<br>84.002<br>84.010<br>84.027<br>84.041<br>84.048<br>84.367   | National School Lunch Program<br>Adult Education – Basic Grants to States<br>Title I Grants to Local Educational Agencies<br>Special Education – Grants to State<br>Impact Aid<br>Career and Technical Education – Basic Grants to States<br>Supporting Effective Instruction State Grants |

continue

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

**Questioned Cost** \$147,874

**Auditee Comments** As per Final Audit Determination (Audit Control Number 02-19-19412) dated June 11, 2021, received from the US Department of Education (Department), they accepted the corrective action taken by PRDE to resolve this finding for CFDA No. 84.002 and 84.048 programs without recovery of funds.

As per implementation of the specific conditions on all of its grant awards to PRDE to procure the services of a third-party fiduciary agent (TPFA), accepted to the Department, the TPFA will perform financial management duties currently performed by Puerto Rico and PRDE to correct the deficiencies identified by the auditors in this finding, the Department consider this finding resolved.

However, the Department's Office of Acquisition and Grant Administration will continue to monitor the PRDE's compliance with the specific conditions.

**Finding Number** **2019-006** **Level of Effort – Maintenance of Effort**  
 The PRDE do not implement and maintain adequate procedures and process, and proper documentation in order to assess and monitor compliance with Level of Effort – Maintenance of Effort.

**CFDA Number** 84.048 Career and Technical Education – Basic Grants to States

**Questioned Cost** Not Determined

**Auditee Comments** In letter dated December 16, 2020 the Office of Career, Technical, and Adult Education (OCTAE) determined that, for each FFY's 2016 through 2019 a waiver was approved to the MOE requirements.

As per implementation of the specific conditions on all of its grant awards to PRDE to procure the services of a third-party fiduciary agent (TPFA), accepted to the Department, the TPFA will perform financial management duties currently performed by Puerto Rico and PRDE to correct the deficiencies identified by the auditors in this finding, the Department consider this finding resolved.

However, the Department's Office of Acquisition and Grant Administration will continue to monitor the PRDE's compliance with the specific conditions.

**Finding Number** **2019-007** **Reporting**  
 The Fiscal Operations Report and Application to Participate ("FISAP") for the Award Year 2018-2019 was submitted after the deadline date.

84.377 School Improvement Grants

**Questioned Cost** Not Determined

**Auditee Comments** As per Final Audit Determination (Audit Control Number 02-2019-11891) dated June 7, 2021, received from the Federal Awarding Agency, they accepted the corrective action taken by PRDE to resolve this finding, and accordingly, this finding was closed.

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

|                         |  |  |
|-------------------------|--|--|
| <b>Finding Number</b>   | <b>2019-008</b>  | <b>Special Tests and Provisions – Enrollment Reporting</b><br>The Enrollment Reporting Roster File updated to the National Student Loan Data System (“NSLDS”) for the Award Year 2018-2019 was not submitted.  |
| <b>CFDA Numbers</b>     | 84.007, 84.033, 84.063: Student Financial Assistance Cluster   |  |
| <b>Questioned Cost</b>  | Not Determined   |  |
| <b>Auditee Comments</b> | As per Final Audit Determination (Audit Control Number 02-2019-11891) dated June 7, 2021, received from the Federal Awarding Agency, they accepted the corrective action taken by PRDE to resolve this finding, and accordingly, this finding was closed.<br><br>As a result of the qualified opinion from the auditor, the US Department of Education will continue to monitor the PRDE’s capability to the administration of Title IV programs.  |  |
| <b>Finding Number</b>   | <b>2019-009</b>  | <b>Procurement (All Major Programs)</b><br>The non-federal entity was not able to provide records sufficient to detail the history of procurement for the amount of \$59,260.  |
| <b>CFDA Numbers</b>     | 10.555 National School Lunch Program<br>10.559 Summer Food Service Program for Children<br>10.558 Child and Adult Care Food Program<br>84.002 Adult Education – Basic Grants to States<br>84.007, 84.033, 84.063: Student Financial Assistance Cluster<br>84.010 Title I Grants to Local Educational Agencies<br>84.048 Career and Technical Education – Basic Grants to States<br>84.287 Twenty-First Century Community Learning Centers<br>84.365 English Language Acquisition State Grants<br>84.377 School Improvement Grants<br>84.938A Immediate Aid to Restart School Operations<br>84.938C Temporary Emergency Impact Aid for Displaced Students<br>97.036 Disaster Grants – Public Assistance |  |
| <b>Questioned Cost</b>  | Not Determined   |  |
| <b>Auditee Comments</b> | As per Final Audit Determination (Audit Control Number 02-19-19412) dated June 11, 2021, received from the US Department of Education (Department), this finding was not sustained.  |  |
| <b>Finding Number</b>   | <b>2019-010</b>  | <b>Reporting – COD Reporting</b><br>In nine (9) instances, payments made were not reported through the Common Origination and Disbursement (“COD”) reporting 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. |
| <b>CFDA Numbers</b>     | 84.007, 84.033, 84.063: Student Financial Assistance Cluster   |  |
| <b>Questioned Cost</b>  | None   |  |

continue

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

**Auditee Comments** As per Final Audit Determination (Audit Control Number 02-2019-11891) dated June 7, 2021, received from the Federal Awarding Agency, they accepted the corrective action taken by PRDE to resolve this finding, and accordingly, this finding was closed.

As a result of the qualified opinion from the auditor, the US Department of Education will continue to monitor the PRDE's capability to the administration of Title IV programs.

**Finding Number** **2019-011 Special Tests and Provisions – Return of Title IV Funds**  
 Some payments made were not reported through the Common Origination and Disbursement ("COD") reporting within the required timeframe and in others the PRDE did not provide evidence of reporting the adjustments that should have been made through the student payment data in the COD System.

**CFDA Numbers** 84.007, 84.033, 84.063: Student Financial Assistance Cluster

**Questioned Cost** Not Determined

**Auditee Comments** As per Preliminary Audit Determination (Audit Control Number 02-2019-11891) dated January 8, 2021, received from the Federal Awarding Agency, the PRDE must return the lesser of the total amount of unearned Title IV assistance, or an amount equal to the total institutional charges incurred by the student for the payment period of enrollment multiplied by the percentage of Title IV grant or loan assistance that has not been earned by the student.

As per Final Audit Determination (Audit Control Number 02-2019-11891) dated June 7, 2021, received from the Federal Awarding Agency, after the file review by PRDE the total amount to return was \$6,144.94 from Pell Grant that was paid on June 3, 2021; plus \$130.80 of cost of funds and \$5.04 for late returns, for a total of \$135.84 that was paid on June 3, 2021. Accordingly, this finding was closed.

As a result of the qualified opinion from the auditor, the US Department of Education will continue to monitor the PRDE's capability to the administration of Title IV programs.

**Finding Number** **2019-012 Special Tests and Provisions – Disbursements to or on Behalf of Students**  
 Some payments for Pell and FSEOG programs were paid after 14 days of the occurrence of the credit balance on the student account, and for FWS program some payment of compensation exceeded one month.

**CFDA Numbers** 84.007, 84.033, 84.063: Student Financial Assistance Cluster

**Questioned Cost** Not Determined

**Auditee Comments** As per Final Audit Determination (Audit Control Number 02-2019-11891) dated June 7, 2021, received from the Federal Awarding Agency, they accepted the corrective action taken by PRDE to resolve this finding, and accordingly, this finding was closed.

As a result of the qualified opinion from the auditor, the US Department of Education will continue to monitor the PRDE's capability to the administration of Title IV programs.

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

|                         |   |  |
|-------------------------|---|--|
| <b>Finding Number</b>   | <b>2019-013</b>   | <b>Eligibility</b><br>In some instances, the need analysis worksheet did not account for all the financial assistance awarded during the period under audit. None instances of total Title IV Funds awarded exceeded their financial need. |
| <b>CFDA Numbers</b>     | 84.007, 84.033, 84.063: Student Financial Assistance Cluster  |  |
| <b>Questioned Cost</b>  | Not Determined  |  |
| <b>Auditee Comments</b> | As per Final Audit Determination (Audit Control Number 02-2019-11891) dated June 7, 2021, received from the Federal Awarding Agency, they accepted the corrective action taken by PRDE to resolve this finding, and accordingly, this finding was closed.<br><br>As a result of the qualified opinion from the auditor, the US Department of Education will continue to monitor the PRDE's capability to the administration of Title IV programs. |  |

(2) **AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED:**

**Findings Related to the Financial Statement:**

**FISCAL YEAR 2019**

|                         |  |  |
|-------------------------|--|--|
| <b>Finding Number</b>   | <b>2019-002</b>  | <b>Internal Control / Compliance</b><br>Form 499R-4 missing on some employees' files and Medicare withholdings were not properly made. |
| <b>CFDA Numbers</b>     | 84.027<br>84.367   | Special Education – Grants to State<br>Supporting Effective Instruction State Grants   |
| <b>Questioned Cost</b>  | None   |  |
| <b>Auditee Comments</b> | No final determination has been received from the Federal Awarding Agency. |  |

**Findings Related to the Federal Programs:**

**FISCAL YEAR 2018**

|                         |  |   |
|-------------------------|--|---|
| <b>Finding Number</b>   | <b>2018-006</b>  | <b>Eligibility</b><br>Data entered on SIE did not match the physical forms maintained at the schools' records, which were completed by parents or in-charges. |
| <b>CFDA Numbers</b>     | 84.010   | Title I Grants to Local Educational Agencies  |
| <b>Questioned Cost</b>  | Not Determined.  |   |
| <b>Auditee Comments</b> | No final determination has been received from the Federal Awarding Agency. |   |

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

|                         |  |   |
|-------------------------|--|---|
| <b>Finding Number</b>   | <b>2018-009</b>  | <b>Reporting</b><br>Delay in submitted the Quarterly Grant Accrual Report.  |
| <b>CFDA Numbers</b>     | 45.310   | Grants to States  |
| <b>Questioned Cost</b>  | None   |   |
| <b>Auditee Comments</b> | No final determination has been received from the Federal Awarding Agency. |   |
| <b>Finding Number</b>   | <b>2018-011</b>  | <b>Special Tests and Provisions – Enrollment Reporting</b><br>The Enrollment Reporting Roster File updated to the National Student Loan Data System (“NSLDS”) for the Award Year 2018-2019 was not submitted. |
| <b>CFDA Numbers</b>     | 84.007, 84.033, 84.063: Student Financial Assistance Cluster               |   |
| <b>Questioned Cost</b>  | Not Determined   |   |
| <b>Auditee Comments</b> | No final determination has been received from the Federal Awarding Agency. |   |
| <b>Finding Number</b>   | <b>2018-013</b>  | <b>Allowable Costs/Costs Principles</b><br>No evidence was available to support that the payment was properly documented.   |
| <b>CFDA Numbers</b>     | 10.559   | Summer Food Service Program for Children  |
| <b>Questioned Cost</b>  | None   |   |
| <b>Auditee Comments</b> | No final determination has been received from the Federal Awarding Agency. |   |
| <b>Finding Number</b>   | <b>2018-020</b>  | <b>Eligibility</b><br>Noncompliance with Annual Report Cards and High School Graduation Rate.   |
| <b>CFDA Numbers</b>     | 84.010   | Title I Grants to Local Educational Agencies  |
| <b>Questioned Cost</b>  | Not Determined   |   |
| <b>Auditee Comments</b> | No final determination has been received from the Federal Awarding Agency. |   |
| <b>Finding Number</b>   | <b>2018-021</b>  | <b>Eligibility</b><br>Noncompliance with Assessment System Security.  |
| <b>CFDA Numbers</b>     | 84.010   | Title I Grants to Local Educational Agencies  |
| <b>Questioned Cost</b>  | Not Determined   |   |
| <b>Auditee Comments</b> | No final determination has been received from the Federal Awarding Agency. |   |

continue

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

FISCAL YEAR 2019

**Finding Number**                      **2019-002**            **Allowable Costs/Costs Principles; Cash Management**  
 Form 499R-4 missing on some employees' files and Medicare withholdings were not properly made.

**CFDA Numbers**                      84.027                Special Education – Grants to State  
    84.367                Supporting Effective Instruction State Grants

**Questioned Cost**                      None

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

**Finding Number**                      **2019-003**            **Cash Management**  
 Disbursement after the required time frame of three (3) business days of their availability.

**CFDA Numbers**                      10.555                National School Lunch Program  
    10.559                Summer Food Service Program for Children  
    10.558                Child and Adult Care Food Program  
    84.002                Adult Education - Basic Grants to States  
    84.007, 84.033, 84.063: Student Financial Assistance Cluster  
    84.048                Career and Technical Education – Basic Grants to States  
    84.287                Twenty-First Century Community Learning Centers  
    84.377                School Improvement Grants

**Questioned Cost**                      None

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

**Finding Number**                      **2019-004**            **Eligibility**  
 Data entered on SIE did not match the physical forms maintained at the schools' records, which were completed by parents or in-charges.

**CFDA Numbers**                      84.010                Title I Grants to Local Educational Agencies

**Questioned Cost**                      Not Determined

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

**Finding Number**                      **2019-005**            **Special Tests And Provisions – Verification of Free and Reduced Price Applications (NSLP)**  
 One instance of five Verification of Free and Reduced Price Applications document was completed after the required due date of November 15th of each year.

**CFDA Numbers**                      10.555                National School Lunch Program  
    10.559                Summer Food Service Program for Children



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

**Questioned Cost** None  
**Auditee Comments** No final determination has been received from the Federal Awarding Agency.

**Finding Number** **2019-014** **Period of Performance**  
 Liquidation after the 90-day period allowed.

**CFDA Numbers** 97.036 Disaster Grants – Public Assistance

**Questioned Cost** \$29,482

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

**Finding Number** **2019-015** **Special Tests and Provisions – Prohibition on Using Funds for Section 8003 Impact Aid Students**  
 No supporting documentation were provided to determine compliance with Section 8003 Impact Aid application with the supporting documentation for the displaced students covered under Emergency Impact Aid program and ascertain that students are not included under both programs.

**CFDA Numbers** 84.938C Temporary Emergency Impact Aid for Displaced Students

**Questioned Cost** Not Determined

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

**Finding Number** **2019-016** **Special Tests and Provisions – Documentation of Enrollment Status**  
 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.

**CFDA Numbers** 84.938C Temporary Emergency Impact Aid for Displaced Students

**Questioned Cost** \$5,093,875

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

**Finding Number** **2019-017** **Special Tests and Provisions – Assessment System Security**  
 Schools with no Security agreements, no documentation of monitoring reviews conducted before assessment tests were available for reviews, and others without documentation of monitoring reviews.

**CFDA Numbers** 84.010 Title I Grants to Local Educational Agencies

**Questioned Cost** Not Determined

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

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

|                         |  |   |
|-------------------------|--|---|
| <b>Finding Number</b>   | <b>2019-018</b>  | <b>Reporting</b><br>No documentation was provided for our review two (2) forms SF-270 – Requests for Advance or Reimbursements requested. |
| <b>CFDA Numbers</b>     | 97.036   | Disaster Grants – Public Assistance   |
| <b>Questioned Cost</b>  | None   |   |
| <b>Auditee Comments</b> | No final determination has been received from the Federal Awarding Agency. |   |

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

**NONE**

(4) **AUDIT FINDINGS IS NO LONGER VALID:**

**FISCAL YEAR 2017**

**Findings Related to the Financial Statement:**

|                         |   |   |
|-------------------------|---|---|
| <b>Finding Number</b>   | <b>2017-003</b>   | <b>Internal Control / Compliance</b><br>Disbursement related to transportation services for students. |
| <b>Auditee Comments</b> | More than two years has passed without final determination of Cognizant Agency. |   |

**Findings Related to the Federal Programs:**

|                         |   |   |
|-------------------------|---|---|
| <b>Finding Number</b>   | <b>2017-007</b>   | <b>Matching, Level of Effort, Earmarking</b><br>Noncompliance with the 90 percentage of the aggregate expenditures. |
| <b>CFDA Numbers</b>     | 84.010<br>84.287  | Title I Grants to Local Educational Agencies<br>Twenty-First Century Community Learning Centers                     |
| <b>Auditee Comments</b> | More than two years has passed without final determination of Cognizant Agency. |   |

|                         |   |   |
|-------------------------|---|---|
| <b>Finding Number</b>   | <b>2017-014</b>   | <b>Reporting</b><br>Delay in submitted the Final Financial Status Report. |
| <b>CFDA Numbers</b>     | 84.369  | Grants for State Assessments and Related Activities                       |
| <b>Auditee Comments</b> | More than two years has passed without final determination of Cognizant Agency. |   |

|                         |   |  |
|-------------------------|---|--|
| <b>Finding Number</b>   | <b>2017-016</b>   | <b>Reporting</b><br>Delay in submitted the Quarterly Grant Accrual Report. |
| <b>CFDA Numbers</b>     | 45.310  | Grants to States   |
| <b>Auditee Comments</b> | More than two years has passed without final determination of Cognizant Agency. |  |

continue

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

|                         |   |   |
|-------------------------|---|---|
| <b>Finding Number</b>   | <b>2017-017</b>   | <b>Allowable Costs/Costs Principles</b><br>The PRDE did not provide the aggregate payroll cost report on actual time and effort distribution to employee.   |
| <b>CFDA Numbers</b>     | 84.010<br>84.013<br>84.287<br>84.365<br>84.367                                  | Title I Grants to Local Educational Agencies<br>Title I Program for Neglected and Delinquent Children<br>Twenty-First Century Community Learning Centers<br>English Language Acquisition Grants<br>Improving Teacher Quality State Grants |
| <b>Auditee Comments</b> | More than two years has passed without final determination of Cognizant Agency. |   |
| <b>Finding Number</b>   | <b>2017-018</b>   | <b>Eligibility</b><br>The student information does not agree with the information in the SIS data system.   |
| <b>CFDA Numbers</b>     | 84.010  | Title I Grants to Local Educational Agencies  |
| <b>Auditee Comments</b> | More than two years has passed without final determination of Cognizant Agency. |   |
| <b>Finding Number</b>   | <b>2017-019</b>   | <b>Subrecipient Monitoring</b><br>Delay in submitted the written notification of the review findings.   |
| <b>CFDA Numbers</b>     | 10.555<br>10.559  | National School Lunch Program<br>Summer Food Service Program for Children   |
| <b>Auditee Comments</b> | More than two years has passed without final determination of Cognizant Agency. |   |
| <b>Finding Number</b>   | <b>2017-024</b>   | <b>Subrecipient Monitoring</b><br>PRDE did not required reports under the Federal Funding Accountability and Transparency Act of 2006.  |
| <b>CFDA Numbers</b>     | 84.366  | Mathematics and Science Partnership   |
| <b>Auditee Comments</b> | More than two years has passed without final determination of Cognizant Agency. |   |

**END OF SCHEDULE**

CORRECTIVE ACTION PLAN

| FINDING NUMBER | COMPLIANCE SECTION                     | AUDITOR'S DESCRIPTION  | AUDITOR'S RECOMMENDATION  | CORRECTIVE ACTION   | LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM  | TARGET COMPLETION DATE |
|----------------|--|--|---|---|---|------------------------|
| 2020-001       | 2 CFR § 200.514                        | Annually, the PRDE receives funds from the Commonwealth for the operation of the Office for the Improvements of Public Schools (OIMEP) as part of the General Fund appropriation. This office is a department or fund within the PRDE structure. During our audit procedures of the financial statement of the PRDE, we noted that the PRDE only accounts for the payroll and fringe benefit expenditures appropriated for the fiscal year. The other funds appropriated on the budget approved are transfers to the OIMEP separate bank accounts from which payments for other budgeted expenditures related to the OIMEP operations are drafted. OIMEP maintains separate accounting for these funds and are not subject to the PRDE's supervision or fiscal oversight. The PRDE does maintain and account for a final liquidation of funds not expended by the OIMEP at year end. However, for the fiscal year under audit the final liquidation of funds not expended by OIMEP (amounting to \$2,505,727) was received after the year end closeout period and was register on the next fiscal year as a reduction of expenditures of the following year.   | We recommend the PRDE to maintain adequate records related to the actual expenditures incurred by OIMEP and perform monthly monitoring of the financial transactions of the OIMEP by the PRDE accounting office staff or financial consultants. Also, formal closeout procedures should be established with due dates sufficient to provide the PRDE with adequate and timely financial information in order to comply with the Treasury Department year end closeout requirements and for financial statements preparation purposes. | Funds transferred to OIMEP are entirely related to State funds. PRDE has accounted for this State funds as established between different agencies including the Puerto Rico Office of Management and Budget according to its understanding based on the available regulation and governmental structure.<br><br>PRDE over the years has monitored these funds. Transfers made to OIMEP are adjudged based in a budget. Disbursements made by OIMEP are strictly performed over these specific accounts included in such budget. Any fund not expended during year-end operations are transferred-in to PRDE. Additionally, such funds expended by OIMEP has been subjected to audits by an independent auditor.<br><br>However, during the last months management has been discussing the possibility of account for the entire OIMEP operations within the PRDE accounting system and in this way ensuring that all details are included in the same financial system. The final output about this change should take place during the following months. Nevertheless, as this change is made, PRDE will monitor the expenses incurred by OIMEP and will ensure that any fund not expended has been received before the fiscal year end.   | Evelyn Rodríguez Cardó<br>Finance Director  | September 21, 2021     |
| 2020-002       | 2 CFR Section 200.302 (a)              | As part of our procedures over internal controls and compliance for the allowable activities requirement, we selected a sample of seventy six (76) disbursement to suppliers made during fiscal year under audit. We noted the following deficiencies:<br><br>1. In one (1) instance, we found that the detail of the invoice sent by the service provider did not include in some documents information about the student, to whom the service was provided, which would identify him as participating in the special education program (PEI number). In addition, the invoice was not signed by the service provider.<br>2. In twenty nine (29) vouchers evaluated, it was found that the invoiced expenses corresponded to both cluster programs (CFDA Nos. 84.027 and 84.173), and the invoices established this. However, the expenses in the system were recognized in grant 84.027, not according to the participants attended and invoiced, according to their age.  | We recommend that the PRDE establish standardized written guidelines and train the staff of the Regions to carry out and document the reviews and approvals of services. In addition, the personnel must be instructed to account for the budget and expense of therapy and related services, according to the enrollment of students who will attend, in accordance with the program that applies within the cluster.  | Related to conditions number one (1), PRDE established in its financial system an internal control to document and review each invoice received by the service providers. As part of these procedures, PRDE also requires that the service providers submit an Agreed Upon Procedure (AUP) by a Certified Public Accountant (CPA). On this AUP, the CPA certifies that the invoice was accurate, and validate that the students included in the invoice are allowable and in compliance with the contract between the service provider and PRDE. Additionally, the PRDE reviewed the information provided and ensures that the invoice has all the requirements to follow the payment process in the system.<br><br>For the condition number two (2), IDEA Part B, Section 611 funds can be used for students ages 3 to 21. According to the description that OSEP provides for the §611: Special Education – Grants to States program, indicates that "The Grants to States program provides formula grants to assist the 50 states, the District of Columbia, Puerto Rico, the Department of the Interior, Outlying Areas, and the Freely Associated States in meeting the excess costs of providing special education and related services to children with disabilities in order to be eligible for funding, states must serve all children with disabilities between the ages of 3 through 21, except that they are not required to serve children aged 3 through 5 or 18 through 21 years if services are inconsistent with State law or practice or the order of any court. A state that does not provide a free appropriate public education (FAPE) to children with disabilities aged 3 through 5 cannot receive base payment funds attributable to this age group or any funds under the Preschool Grants program."<br><br>Under 34 CFR § 300.202 (a), the LEA must use funds from IDEA, Part B in accordance with the applicable provisions of this part ... to pay the excess costs of providing special education and related services to children with disabilities."   | Enid Diaz<br>Director of Administration<br><br>Jessica Diaz<br>Acting Associate Secretary | Current Fiscal Year    |
| 2020-003       | 34 CFR 668.14 (a)<br><br>34 CFR 668.16 | The following deficiencies were found:<br><br>1. The calculation of COA amount was incorrectly determined based in the student status as Dependent or Independent. We found three (3) students Independent with a COA amount assigned for dependent students. In these cases this error does not affect the assistance amount awarded to the students.<br>2. The calculation of COA amount was not documented for the 2nd Semester, based in the student enrollment. We found five (5) participants without COA documentation (Calculation).<br>3. The student file does not include the SEOG documentation related to the calculation of the award and disbursement amount for nineteen (19) students.<br>4. The Financial Assistance Control Card ("Tarjeta Control de Asistencia Económica") established as the control for showing and establishing all the Financial Assistance awarded to the students was not signed by the Financial Aid Officer for fourteen (14) students.<br>5. The Official Enrollment was not signed by the Registrar for nine (9) students.<br>6. The Student file does not have the Pell Award documentation for the 1st Semester or the 2nd Semester for eight (8) students.<br>7. The Financial Assistance Control Card ("Tarjeta Control de Asistencia Económica") established as the control for showing and establishing all the Financial Assistance awarded to the students was not included in the student file for two (2) students.<br>8. The PRDE incorrectly documented the Cost of Attendance (COA) amounting to \$4,190 for three (3) students in the student's files. The correct COA used to determine the student award amount was greater than the COA documented, and this misled the auditor recalculation of the Pell Award. | We recommend PRDE's management to review, document and strengthen its internal control procedures in order to provide adequate evidence to ascertain that the procedures are performed as required. Also we recommend that adequate training is provided to the employees that perform those procedures and monitor the compliance with such internal control procedures.   | Management Response for Finding 2020-003-1<br>Management concurs with the auditors finding, however the three cases in this finding were all corrected. This was an isolated incident that occurred at PRDE Guayama campus, where the officer placed the COA from a Dependent student to a student with Independent status. It should be pointed out that PRDE main office establishes average costs for different categories of students and sets up these cost categories in ED Express. ED Express then uses this information to determine awards and package aid. This method ensures that the student's need is evaluated correctly, so that student's accounts do not reflect an over award on the account. Please note, that an over award is created when a student's aid package exceeds his or her need or overall cost of attendance (COA).<br><br>Management Response for Finding 2020-003-2<br>Management is not in agreement with this finding. In regard to the COA form, the information for the second semester was documented on the back of the reviewed printed sheet that covered the first semester, therefore the COA calculation for the second semester was in the file. We want to emphasize that the students in question received the correct awards based on the COA calculations. It must also be pointed out that PRDE has acquired a new system (Orbound), that will fully automate PRDE. This system is an automated one, so all the documentation will be automated and not done manually, therefore completely facilitating all the required documents for subsequent audits. PRDE have also contracted with an external auditing company to do internal audits frequently so that there will be no repeat findings.<br><br>Management Response for Finding 2020-003-3<br>Management is not in agreement with this finding. The student's control cards contains all of the information regarding calculation of the COA, amount of aid awarded, disbursed and the student's need just to name a few, therefore, the SEOG information is also included on the student's control cards. As to the issue of the repeat finding 2019-013, the auditor's alternate review showed that this issue was corrected and in none instances the total Title IV Funds awarded exceeded their financial need. PRDE would not have this issue, because we have entered into a purchase agreement with a renowned software development company (Orbound) that specializes in student information systems. We presented the documentation showing the financial aid granted to these students, in none of the instances the Total Title IV Funds awarded exceeded their financial need. PRDE have also contracted with an external auditing company to do internal audits frequently so that there will be no repeat findings.<br><br>Management Response for Finding 2020-003-4<br>Management concurs with the auditor that the financial assistance control card was not signed however, we believe this finding is just an internal control matter created by PRDE because all of the financial assistance awarded to the students was reflected on the students control card, and also all the awards were made according to the Title IV regulations.<br><br>Management Response for Finding 2020-003-5<br>Management concurs with the auditor that the enrollment was not signed by the registrar, however the enrollment documentation contain the registrar's seal. In order for the institution to make a disbursement, it must have an initial enrollment agreement to the program chosen by the student. PRDE has the agreement signed by the student and the PRDE official.<br><br>Management Response for Finding 2020-003-6<br>Management does not agree with the auditors finding. The students control card does reflect all of the financial aid awarded. It must also be pointed out that PRDE has acquired a new system (Orbound), that will fully automate PRDE. This system is an automated one, so all the documentation will be automated and not done manually, therefore completely facilitating all the required documents for subsequent audits. PRDE have also contracted with an external auditing company to do internal audits frequently so that there will be no repeat findings.<br><br>Management Response for Finding 2020-003-7<br>Management concurs with the auditors finding however this has been corrected and procedures have been initiated so that this will not be an issue going forward. Please note that all the awards were made according to the Title IV regulations.<br><br>Management Response for Finding 2020-003-8<br>Management concurs with the auditors finding and the three student's files have all been corrected. This was an isolated case that occurred at Troquelera campus where the officer manually, incorrectly, calculated the student's COA. As previously mentioned PRDE main office establishes average costs for different categories of students and sets these cost categories in ED Express, who then uses this information to determine awards and package aid. This method ensures that the student's need is evaluated correctly so that student's accounts do not reflect an over award. Again, an over award exists when a student's aid package exceeds his or her need or overall cost of attendance (COA). The COA's | Kelvin Pagan La Luz<br>Director of Technical Education<br>Division                        | Already Implemented    |

| FINDING NUMBER | COMPLIANCE SECTION  | AUDITOR'S DESCRIPTION  | AUDITOR'S RECOMMENDATION   | CORRECTIVE ACTION   | LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM   | TARGET COMPLETION DATE                            |
|----------------|---|--|--|---|--|---|
| 2020-004       | 2 CFR Section 203.403 (b)   | <p>As part of our audit processes on the personnel and payroll processes, both for financial purposes and for Federal programs, as applicable, we selected a sample of two hundred forty (240) employees. The following deficiencies were found:</p> <ol style="list-style-type: none"> <li>The PRDE was unable to provide evidence of employee leave accrual, adjustments, and utilization for the month of September 2019.</li> <li>For the Special Education Grants to States Program, from the selected sample of sixty (60) employees paid in the second half of September 2019, we found that in one instance, the employee had an unpaid leave effective from August 1, 2019, and received full payment of \$1,142 for the fortnight ended on September 27, 2019.</li> <li>In the sample of internal controls over financial reporting from the selected sample of sixty (60) employees paid in the second half of September 2019, we found that an employee had an effective leave without pay since May 1, 2019, and received full payment of \$923.53 for the fortnight ended on September 27, 2019.</li> <li>In relation to the program Career and Technical Education – Basic Grants to States, we selected a journal entry related to payroll expenditures. In the database provided, we noted payroll expenditures amounting to \$87,324.32 that did not belong to the program allowable cost. We confirmed that these administrative expenditures should have been accounted for through the Special Education Grants to States Program (DEA, Part B) CFDA 84.027. These transactions were prospectively adjusted by transferring these costs to this program.</li> </ol> | <p>We recommend the PRDE to design and implement adequate internal controls and payroll processes that will identify in real-time or sooner, any incorrect payroll payment made.</p>   | <p>Regarding condition number 1, PRDE submitted the evidence of the accumulated, adjusted or used balances of the employees for the month of September 2019 as understood during the first information request. Subsequently, during a meeting, the PRDE was asked to review the information with additional details. Unfortunately, and due to error, it was not submitted by the date indicated. However, we emphasize that the updated information was provided after such date. Also, it should be noted that the agency is willing to answer any questions or concerns about the information provided in relation to this condition.</p> <p>Regarding conditions number 2 and 3, during fiscal year 2020-2021 the PRDE has established a biweekly salary adjustment process as part of the controls on employees who do not have a vacation and illness balances. Additionally, for these cases the PRDE made the corresponding adjustments, either through the stop of payment and invoice to the collection and/or payment plan.</p> <p>As established in condition number 4, the PRDE accounted for a payroll in an incorrect federal program. However, as mentioned in the condition, such payroll was adjusted as part of the accounting closing. This demonstrates that the PRDE has the proper internal controls to identify a situation of this nature. It is important to emphasize that this adjustment was carried out before the audit process.</p> <p>Although the PRDE have in place controls to identify these improper payments subsequently, the agency will be evaluating the payroll processes together with the Third-Party Fiduciary so that these improper disbursements do not occur since the inception. These new procedures are expected to go into effect during the subsequent fiscal years.</p> | <p>Frances M. Pelet Román<br/>Auxiliary Secretary of Human Resources</p>   | Already Implemented                               |
| 2020-005       | 2 CFR Section 203.403 (b)   | <p>As part of our audit procedures and interviews over financial reporting, we obtained a detail of accounts receivable related to duplicate payments to suppliers in the amount of \$108,775, and duplicate or incorrect payments made for payroll transactions in the amount of \$7,695,978. Invoices issued during the fiscal year ended June 30, 2020 balance.</p>   | <p>We recommend the PRDE to design and implement adequate internal controls and payroll processes that will identify in real-time or sooner, any incorrect payroll payment made. In relation to the deficiency related to the suppliers, a validation of all payments to be processed should be made in order to assure that no duplicate payments are made.</p> | <p>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 95% of the outstanding balance of accounts receivable relates to improper payroll payments, PRDE's Human Resource Office developed and implemented a new policy of Time, Attendance and Tardiness, in December 2020. The automation of these process prevents improper salary payments, overpayments and/or payments to employees without accumulated vacations or sick leave balances, among others.</p> <p>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.</p>   | <p>Judith Parilla<br/>Accounts Receivable Supervisor<br/>Evelyn Rodríguez Cardé<br/>Finance Director</p>   | Already Implemented                               |
| 2020-006       | Title 7, Agriculture Part 210 – National School Lunch Program Subpart C | <p>As part of our audit procedures, we selected a sample of ten (10) subrecipient files to test internal controls and compliance with the Subrecipient Eligibility requirement. As a result of our tests, we noted the following exceptions:</p> <ol style="list-style-type: none"> <li>For one (1) subrecipient file tested, the Contract (Program Agreement) was not prepared during the fiscal year (See Finding Reference Number 2020-011). The first contract signed on September 23, 2020.</li> <li>During the fiscal year under audit from July 1, 2019 to June 30, 2020 a total of \$112,593 program funds were disbursed to this subrecipient without a contract agreement being signed between the State Agency (PRDE) and the subrecipient.</li> </ol>  | <p>We recommend that the PRDE follows its own contract/agreement procedures and assured that program funds are only disbursed to subrecipients with a valid signed contract agreement.</p>   | <p>After analyzing and reviewing the previous reports, AESAN agrees with the findings. Since August 8, 2021, we have taken administrative measures and assigned the personnel to accomplish the compliance requirements, and do not let a similar situation ever happen again. To provide context on this process, it goes as follows:</p> <ol style="list-style-type: none"> <li>Sponsor File and Participation Request is analyzed by INSUP / SFSP personnel.</li> <li>The AESAN Legal Advisor will review Sponsor Participation File and submit a formal opinion, regarding sponsor participation and recommendation for either AESAN Director signatures or submit findings with the proper corrective actions.</li> <li>If the application file has all requirements, the Agreement will go for the AESAN Director signature.</li> <li>Once properly signed, the documents will be saved on a ONE-DRIVE file.</li> </ol> <p>As of September 21, 2021, an official memorandum from AESAN Director was submitted to the AESAN Management personnel, that are directly responsible for the reimbursement of funds to Sponsor. The memorandum stated a brief of the finding, the internal process to follow and was followed by a meeting with the personnel.</p>  | <p>Carmen Vega<br/>SFSP Coordinator<br/>Márcel Carrasquillo<br/>NSLP Coordinator<br/>Leda Jerez Muñoz<br/>Legal Advisor<br/>Lourdes García Santiago AESAN Director</p> | October 1, 2021                                   |
| 2020-007       | 2 CFR section 203.313   | <p>As part of our procedures on equipment requirements, we request an inventory of equipment from the PRDE as of June 30, 2020. The inventory detail submitted does not present any disposition of assets, nor are there any assets identified that have been affected by the earthquakes that have occurred between December 2019 and January 2020, which damaged school structures. In addition, the evidence submitted as the inventory taking is an Excel sheet that presents total columns of equipment in the system, equipment not located, equipment added, change in custodian, and equipment added manually. This Excel sheet does not indicate the inventory taking date or the person who validates the inventory taking.</p>  | <p>We recommend that the PRDE carry out an inventory and reconcile it with the records maintained by the PRDE. In addition, all the items that are in the schools that were affected by the earthquakes should be identified in the equipment detail, so that they do not appear as being in use or active.</p>  | <p>The report supplied is a summary of the inventories by location. However, in the PRDE financial system there is a certification by each school director which indicates the name and date on which each inventory was approved.</p> <p>As a result of COVID-19 pandemic, PRDE faced delays in the auction process to be able to carry out its corresponding inventory. However, PRDE carried out a Formal Auction SF (OC) 2020-037 for the purchase of materials, equipment, and services for PRDE's physical inventory. What is intended is to replace the labels with more resistant ones and validate the assets in each location. The equipment and materials have not yet arrived at the PRDE due to the challenge of the auction and the COVID-19 pandemic. Once we receive the materials and equipment and we are trained, we will proceed to produce the new labels and begin the task of substitution and validation of assets in all the PRDE locations. We expect to receive materials, equipment and the corresponding training during the following months in order to execute the physical inventory.</p>  | <p>Nidia Z. Morales Vázquez<br/>Property Director</p>  | Subject to the receipt of material and equipment. |
| 2020-008       | 29 USC 3331(b)  | <p>The PRDE failed to comply with the percent requirement to receive funds for FY 2019 (July 2019-Sept 2020). A better assessment must be made before the revision and/or petition of funds for every new fiscal year.</p>   | <p>We recommend that a formal finance and fiscal staff be assigned to the ADA Education State Grant program specifically. The PRDE have fiscal officers assigned to multiple federal programs and sensitive financial information can be missed for certain requirements.</p>  | <p>RDE understands the importance of complying with the MOE requirement. At the same time, PRDE has been facing many challenges due to the country's fiscal crisis and establishment of a Fiscal Oversight and Management Board, state funds allocation reductions, enrollment decline and other unforeseen events, completely outside the Agency's control. As such, PRDE is currently working with the USDE in the re-calculation of the 2018-2019 and 2019-2020 MOE reports submitted to the USDE applying different methodologies and ensuring that PRDE is utilizing all the state fiscal sources that are allowable to be applied for the said calculation. PRDE is committed with the technical assistance sessions and communications with the USDE, seeking to clarify information and ultimately, resolve this matter.</p>  | <p>Elsa Paz<br/>Federal Coordinator<br/>Yerlis Santiago Ramos<br/>Director of Alternative Education</p>  | In Process  |
| 2020-009       | 20 U.S.C. § 9133(c)(1)(A)(i)  | <p>During our audits test of the Maintenance of Effort reports, we noted that the aggregate expenditures for FY 2020 were \$19,304,159, the required expenditure to comply with the Maintenance of Effort for FY 2020 per the PRDE determination based on program requirements was \$19,649,680. Therefore, the PRDE did not reach the required expenditure level to comply with the requirement.</p>  | <p>We recommend that a formal finance and fiscal staff be assigned to the ADA Education State Grant program specifically. The PRDE have fiscal officers assigned to multiple federal programs and sensitive financial information can be missed for certain requirements.</p>  | <p>PRDE understands the importance of complying with the MOE requirement. At the same time, PRDE has been facing many challenges due to the country's fiscal crisis and establishment of a Fiscal Oversight and Management Board, state funds allocation reductions, enrollment decline and other unforeseen events, completely outside the Agency's control. PRDE as the State Library Administrative Agency (SLAA) requested a waiver for the fiscal year grant given that the SLAA failed to meet the Maintenance of Effort (MOE) requirement for FY 2019. The basis of the request was that Commonwealth of Puerto Rico has gone through a natural disaster aftermath as well as a precipitous and unforeseen decline in PRDE financial resources.</p> <p>On September 12, 2019, the Institute of Museum and Library Services (IMLS) in response to the waiver, stated that they were not in a position to grant the SLAA a waiver of its statutory MOE requirements. As a result, the program will be in coordination with IMLS to establish a responsible action plan in order to attend to this matter in a timely manner.</p>   | <p>Héctor M. Rello Godo<br/>Program Manager</p>  | In Process  |
| 2020-010       | 2 CFR section 203.317   | <p>As part of our audit procedures on internal controls and compliance related to procurement of the IDEA Cluster program, we found the following deficiencies:</p> <ol style="list-style-type: none"> <li>In the selected sample of disbursements of seventy-six (76) vouchers, the PRDE did not provide evidence on the procurement process for thirty-seven (37) disbursements. In two (2) quotation processes submitted, no evidence was found in the file on the "trial bid" of the other bidders who were asked for quote.</li> <li>In the interviews conducted for the procurement process for therapy services and other related services, we found that although an adequate procurement process is performed and scores are awarded in the evaluations, providers that did not meet the required minimum score are allowed to hold a meeting and be able to resubmit the proposal. This process is determined by the Director of Monitoring of Evaluations and Related Services, however, the "Guide for the selection of professional services that are paid for with federal funds" establishes that at the determination to request a "best and final" offer must be requested by the Evaluation Committee.</li> <li>The PRDE maintains different procurement processes, according to the services or goods to be acquired. Specifically, for the proposals for therapy services and related services, they worked under the MPE program, and this process is not contemplated in the procedure manuals or guidelines that the PRDE has.</li> </ol>   | <p>We recommend that a formal finance and fiscal staff be assigned to the ADA Education State Grant program specifically. The PRDE have fiscal officers assigned to multiple federal programs and sensitive financial information can be missed for certain requirements.</p>  | <p>Regarding condition number one (1), PRDE properly performed the procurement process for the (37) disbursement selected. However, the documentation was kept in an off-site facility where they are currently in the search of the files and it is expected to have them available to be delivered. The program will continue to enforce the policies and procedures in order to provide the information in a more efficient and faster way.</p> <p>On the other hand, concerning conditions number two (2) and three (3), this process does not represent a competitive process. It represents a service provider selection that seeks to obtain the largest number of providers in order to meet the high demand of services, which currently exceeds supply. These providers are selected as long they comply with the federal and state requirements for these purposes. In effect, at this moment the procedures established does not take into consideration any exceptions when a supplier does not meet the minimum requirements, as long as they are rectifiable matters. We will be reviewing current procedures in order to stipulate rectifiable exceptions during the process and which are not. Also, the review will take into consideration processes performed in systems such as MPE program.</p> <p>It is important to accentuate that PRDE's emphasis is to have the required resources to provide the services to these students. These opportunities have given scope to obtain a greater number of resources, which later, when contacted, have executed the services with the same or greater performance.</p>  | <p>Erid Diaz<br/>Director of Administration<br/>Jessica Diaz<br/>Acting Associate Secretary</p>  | Current Fiscal Year                               |



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|----------------|--|--|---|--|---|------------------------|
| 2020-011       | 2 CFR § 203.214  | <p>As part of our audit procedures, we selected a sample of ten (10) subrecipient files to test internal controls and compliance with the Suspension and Debarment requirement. We review the proposals, contracts and related awards documents kept by the PRDE for each subrecipient on its file. As a result of our tests, we noted the following exceptions:</p> <p>1. For one (1) subrecipient file tested, the Contract (Program Agreement) was not prepared during the fiscal year. (See Finding Reference Number 2020-005). The first contract signed on September 23, 2020.</p> <p>2. For the other nine (9) subrecipient files tested and the one (1) detailed above, there was no information included on the file related to the SAM verification regarding the suspension and debarment of the subrecipient. Also, there was not on file any certification from the subrecipient regarding the requirement and the contracts (Program Agreements) did not include any contract clause regarding the requirement of the subrecipients and its management to not be suspended or debarred as required by the Federal regulations.</p>   | <p>We recommend that the PRDE establish a formal procedure to verify each subrecipient status on SAM prior to evaluation their proposal's participation on the program. Also, to include the required contract clause regarding the suspension and debarment requirement on the contract/program agreement. The action has been taken in the form of technical assistance visits received from the Federal grantor representatives subsequent to the fiscal year under audit.</p>   | <p>After analyzing and reviewing the previous reports, AESAN agrees with the findings. Since August 8, 2021, we have taken administrative measures and assigned the personnel to accomplish the compliance requirements. For both the NATIONAL SCHOOL LUNCH PROGRAM (NSLP) SUAWER FOOD SERVICE PROGRAM FOR CHILDREN (SUAWER FOOD SERVICE PROGRAM) (SFSF) and the request regarding Debarment and Suspension. As a result of a separate finding made by the Federal Government in July 2021, the USDA FNS gave us three different options to ensure that awarded contractors certify that they are not debarred, suspended, or otherwise disqualified from receiving Federal grant funds. These options included:</p> <ul style="list-style-type: none"> <li>– Include a provision in the request of participation and contract, in which the Sponsor or contractor would certify with their signature, they are not debarred, suspended or otherwise excluded from contracting with Federal grants.</li> <li>– Include a certification with the language of debarment and suspension for the Sponsors or contractors to sign.</li> <li>– Verify the sponsor or contractor in the SAM side at GSA.</li> </ul> <p>In compliance with the above, the AESAN amend and included in its Compliance Agreement between AESAN and Sponsors for the NSLP and the SFSF, a Clause with the following language:</p> <p>“DESCALIFICACIÓN Y SUSPENSIÓN: Al firmar el contrato, el proveedor certifica que no está inhabilitado, suspendido o descalificado de alguna manera para recibir fondos federales. Todos los cometidos estarán sujetos a las regulaciones aplicables a descalificación y suspensión de acuerdo con las restricciones contenidas en la sección 2 CFR parte 103 del Código de Regulación Federal, las cuales serán aplicadas a las leyes aplicables a Puerto Rico de la siguiente manera:</p> <p>Certificación de No Convicción por Delitos: De conformidad con las disposiciones de la Ley 2-2018 y la Carta Circular Número 2019-01 del 9 de marzo de 2019 del Departamento de Justicia, el Auspicador certifica y garantiza que al momento de suscribirse este Contrato ni él/ella, ni, en caso de corporaciones u otras entidades jurídicas, los oficiales, principales empleados, accionistas, miembros, o integrantes de la Junta de Directores de la corporación o entidad, ni sus afiliadas o subsidiarias o entidad matriz han sido convictos, se ha acordado causa para arresto, o se ha declarado culpable de cualquier delito contra el erario, la fe o la función pública, contra el ejercicio gubernamental o que involucre fondos o propiedad pública en el ámbito federal o estatal u otra jurisdicción extranjera.</p> | <p>Carren Vega<br/>SFSF Coordinator</p> <p>Milred Carrasquillo<br/>NSLP Coordinator</p> <p>Lourdes García Santiago AESAN<br/>Director</p> | October 1, 2021        |
| 2020-012       | §203.302 Financial Management  | <p>As part of our audit procedures, we selected a sample of program reports submitted for the quarters of March 2020 and June 2020. To test compliance and internal controls for the reporting process, we requested the source documentation and financial records used for the preparation of the required reports. As a result of our tests, we noted the following:</p> <p>1. The PRDE rely on Microsoft's Excel spreadsheets to account for program expenditures and receipts for the report preparation. No formal procedures were in place to reconcile the information on the program reports and Excel files with the official financial records (SFDE).</p> <p>2. The PRDE did not recognize under the program accounting codes on SFDE all transactions reported and approved by the pass-through entity. During the audit, additional procedures and reports were needed to provide sufficient audit evidence related to the correct expenditures charge to the program and reported on the financial reports.</p> <p>3. The Excel spreadsheets used by the PRDE were developed and maintain by third parties (consultants) and the information was not kept by program or financial staff of the PRDE.</p>  | <p>We recommend that the PRDE establish a division within its Federal Program Office to manage the program awards. Also, adequate training on Federal program compliance requirements and reporting should be provided to the program staff. Also, a formal process must be established for reconciling the official accounting record (SFDE) with the Federal program reports.</p>   | <p>Since 2020, PRDE requested to Office of Management and Budget, additional headcount for the Infrastructure and Reconstruction Office (IRO) to ensure that all FEMA PA activities are performed according to requirements. We are in the approval process for such positions. Prior the audit, a reconciliation was performed between Disaster Recovery System (DRS) and SFDE and reconciling items were identified. Related documentation was provided to the auditors and no unallowable activities were identified.</p> <p>New processes will be established to periodically reconcile both systems and corresponding reconciling items will be followed up to ensure that accurate records exist.</p>  | <p>Enrique Quastell Perera<br/>Infrastructure and Reconstruction<br/>Director</p>   | September 27, 2021     |
| 2020-013       | 2 CFR §203.510 Financial Statements  | <p>During our audit procedures of the Schedule of Expenditures of Federal Awards (SEFA) prepared by the PRDE we identified material misstatements related to the programs reported in the schedule that cause changes to the initial determination of type A programs and the major program determination. Adjustments made to misclassified expenditures resulted on an additional program being determined as a major program after the necessary adjustments were posted by the PRDE.</p> <p>Also, we noted that the PRDE does not correctly account for funds pass-through subrecipients on the SEFA. Certain transfers from one operating unit of the PRDE to other operating units within the PRDE are included on the SEFA as funds pass-through to subrecipients. Also, funds used by certain operating units of the PRDE (schools) are included on the totals of the pass-through transfer column of the SEFA. Differences noted are as follows:</p>  | <p>We recommend the PRDE to maintain adequate records related to the Federal programs in order to properly identify the Federal program's transactions when the SEFA is prepared. The PRDE must perform a regular fiscal monitoring over the Federal programs' transactions in order to provide reasonable assurance that all Federal program's transactions are properly recorded and included in the SEFA. In addition, the PRDE must establish a formal instruction to uniform the expenditure account use to record the transfers to subrecipient entities on the general ledger and for SEFA preparation purposes.</p> | <p>The Department of Education (PRDE) has always been committed to disclose and present the financial information accurately and in compliance with local and federal regulations. However, during the current fiscal year there was a case where a disbursement was classified in a federal program that did not correspond to it. This human error occurred because during the preparation of the financial database, the PRDE utilized a query to prepare such database that did not automatically bring the CFDA number directly from the financial system. However, the PRDE immediately created a query that in an automatic way directly reads that information from the grants module, avoiding the manual processes carried out during this fiscal year to ascertain the financial information to be reported. With this corrective action, this situation will not occur subsequently.</p> <p>Regarding the matter of subrecipient amounts, PRDE understands the responsibility related to perform adequately as a pass-through entity because the Agency receives different grants that operate in this manner. In such programs, sub-awards are authorized to entities and, accordingly, payments are made to subrecipients.</p> <p>Pertain to this logic, PRDE report subrecipient disbursements based on federal program understanding. Each federal program has its peculiarities in terms of type of entities that participate as subrecipients, payments, reports and account numbers, among other factors. Therefore, we understand that standardizing this type of transaction in a single process is not feasible.</p> <p>However, PRDE will ensure to obtain a certification from each federal program containing the specific financial criteria that is used in the financial system to identify such transactions during the preparation of the Schedule of Expenditures of Federal Awards every year, to ensure PRDE presents them as the subrecipients amounts.</p>  | <p>Evelyn Rodríguez Cardé<br/>Finance Director</p>  | September 22, 2021     |
| 2020-014       | 34 CFR 603.164 (a)<br>34 CFR 603.16<br>34 CFR 603.24 (c)(1)<br>34 CFR Section 603.164(b) | <p>The following deficiencies were found:</p> <p>1. The PRDE incorrectly documented the Cost of Attendance (COA) amounting to \$4,160 for three (3) students in the student's files. The correct COA used to determine the student award amount was greater than the COA documented, and this misled the auditor resolution of the Pell Award.</p> <p>2. During the performance the special test and provision disbursement to or on behalf of student, we selected a sample of sixty-five (65) students and examined evidence of payments disbursed to student. While reviewing the disbursements evidence we noted the following:</p> <p>a. For one (1) student, we noted that it was included in the SEOG Awards Student List for the 2nd Semester 2019-2020, when there was a determination by the PRDE to does not issue a SEOG payment in favor of such student.</p> <p>b. For twenty-three (23) students, we noted that PRDE issue FELL payments for a total amount of \$50,156 after 14 days of the occurrence of the credit balance on the student's account.</p> <p>c. For eleven (11) students, we noted that PRDE issue SEOG payments for a total amount of \$1,411 after 14 days of the occurrence of the credit balance on the student's account.</p> <p>d. We found ten (10) payments issued after more than a month for nine (9) student's wages earned when the work was performed.</p> | <p>We recommend to Management establish an aggressive review and formal monitoring of the internal controls established for the preparation of the accurate SFA reports, procedures related to the COA determination, and the PELL and SEOG payments issued on time.</p>  | <p>Management Response for Finding 2020-014-1<br/>Management concurs with the auditors finding however this was previously mentioned and responded to as Finding 2020-003-8.</p> <p>Management Response for Finding 2020-014-2a<br/>Management does not concur with the auditors finding. It must also be pointed out that PRDE has acquired a new system (Orbound), that will fully automate PRDE processes. The system is fully computerized, so all the documentation will be automatically created and, in this way, avoiding manual processes.</p> <p>Management Response for Finding 2020-014-2b<br/>Managements concur with the finding. It must be pointed out that at the time of this period audit, PRDE was transitioning from issuing checks to the students to Direct Deposit. These students, referenced in the audit, did not complete the required documentation for the direct deposit at that time. Presently once a student's enrolls this direct deposit documentation is part of the enrollment process.</p> <p>Management Response for Finding 2020-014-2c<br/>Managements concur with the finding. It must be pointed out that at the time of this period audit, PRDE was transitioning from issuing checks to the students to Direct Deposit. These students referenced in the audit did not complete the required documentation for the direct deposit at that time. Presently once a student's enrolls this direct deposit documentation is part of the enrollment process.</p> <p>Management Response for Finding 2020-014-2d<br/>Managements concur with the finding. This issue was caused because of the irregular work schedule of the PRDE staff due to the COVID-19 protocols instituted by the government of Puerto Rico. It must also be pointed out that these students also do not participate in the direct deposit.</p>   | <p>Kevin Pagan La Luz<br/>Director of Technical Education<br/>Division</p>  | Already implemented    |

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|----------------|--|--|---|--|--|------------------------|
| 2020-015       | 203.331, Requirements for Pass-through Entities of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the OMB Compliance Supplement | As part of our audit procedures, we obtained the list of subrecipients active during the fiscal year 2019-2020, monitoring visit schedules and disbursements made. We selected a sample of six (6) subrecipients to test compliance with internal control policies and compliance with the subrecipient monitoring requirement. We noted the following deficiencies during our tests:<br>1. For one (1) subrecipient, we did not find any evidence of the receipt of the Single Audit Report or the required financial statements and special agreed-upon procedure report. Also, we review the Federal Audit Clearinghouse, but no information was found for this subrecipient.<br>2. For one (1) subrecipient, we could only find on the file copy of the audited financial statements. In accordance with the PRDE's program manual and award contract, the entity was required to submit the special agreed-upon procedure report but it was not submitted.<br>3. For one (1) subrecipient, the PRDE program staff incorrectly identify the report received as Program Specific Audit when in fact the subrecipient only submitted the audited financial statements and the special agreed-upon procedures report. Based on the PRDE staff determination and the information included on the financial statements, the subrecipient should have submitted a Single Audit Report or if the program was the only source of Federal expenditures, a program specific report. However, the PRDE staff failed to correctly identify the reports received and no further actions were taken to receive the correct reporting from the subrecipient.  | We recommend that adequate training be provided to the program staff in charge of the monitoring functions of the program in order to comply with the on-site monitoring visits and the correct evaluation of the audit reports that the subrecipients must submit and be evaluated to comply with this requirement.  | PRDE recognize that for the first two conditions, the Agreed Upon Procedures (AUP) were not received as a substitute of the single audit, since federal funds did not exceed the required threshold for the audit.<br><br>As a corrective action plan, the program will require the corresponding reports for these subrecipients, and will assess any corrective action for them. Also, the program will be monitoring that all subrecipients financial requirements are received in the corresponding period.<br><br>On the other hand, condition number three only makes reference to an incorrect identification of the report submitted. However, the AUP were received and analyzed by the program.<br><br>The program will continue to enforce policies and procedures by training all necessary staff on timeliness of procedures. As part of the training to the staff, the program will ensure that all financial information is received and analyzed. These measures will be implemented immediately.<br><br>We want to emphasize that for all subrecipients, the program has sufficient evidence that performed monitoring activities to its sub-grantees throughout the fiscal year. As part of the monitoring activities that were performed, subrecipients were subject to on-site programmatic and fiscal monitoring, invoices interventions before disbursement, review and approval of budget transfers, and evaluation of achievement reports, validating that performance goals were met.   | Richard W. Cruz Franqui<br>Auxiliary Secretary for Federal Affairs<br><br>Luis Oppenheimer<br>21st Program Coordinator                 | Current Fiscal Year    |
| 2020-016       | 203.331, Requirements for Pass-through Entities of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the OMB Compliance Supplement | As part of our audit procedures, we obtained the list of active subrecipients and subrecipients that received funds during the fiscal year 2019-2020, requested the risk assessment documentation, on-site monitoring visits, and documentation regarding the Single Audit report receipt, evaluation and management decisions process. We selected a sample of eight (8) subrecipients to test compliance with internal control policies and compliance with the subrecipient monitoring requirement. We noted the following deficiency during our tests:<br>1. On one (1) subrecipient we noted that the Schedule of Expenditures of Federal Awards did not include the expenditures of the program for the years ended 6/30/2018, 6/30/2019 nor 6/30/2020. Therefore, the program was not included within the scope of the subrecipient audit of Federal programs, and the PRDE staff did not make available their evaluation for this subrecipient.  | We recommend that adequate training be provided to the program staff in charge of the monitoring functions of the program in order to comply with the on-site monitoring visits and the correct evaluation of the audit reports that the subrecipients must submit and be evaluated to comply with this requirement.  | PRDE is committed to comply with all federal and state regulations applicable to programs within the Agency. Consequently, the Agency has taken steps to strengthen internal controls, develop guidelines and procedures for completing reports, and other tasks related to meeting requirements. As we recognize that this is an ongoing process, the program will continue to enforce policies and procedures by training all necessary staff on timeliness of procedures. As part of the training to the staff, the program will ensure deeply review the financial information included in the subrecipients' Schedule of Expenditures of Federal Awards in this way, ensuring that the program fully complies with the monitoring process.  | Yerlis Santiago Ramos<br>Director of Alternative Education   | Current Fiscal Year    |
| 2020-017       | 203.331, Requirements for Pass-through Entities of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the OMB Compliance Supplement | As part of our audit procedures, we obtained a copy of the worksheet for the Single Audit follow-up (Hoja de Trabajo de Seguimiento de la Auditoría Única) for the year 2019-2020. We noted the following deficiencies on the worksheet:<br>1. For one (1) subrecipient, Single Audit Report received at FAC date was noted as 8/7/2019, however, the subrecipient applicable fiscal year end was correctly noted as 9/30/2019. We reviewed the FAC and the correct date of the report receipt at the FAC was 05/07/2020.<br>2. For three (3) subrecipients, the worksheet did not include the information regarding if there were findings for the program. There was no information included on the relevant cells of the worksheet. No information was available on the worksheet to determine if there were audit findings that needed follow-up, CAPs or management decisions.<br>3. For three (3) subrecipients, the date of issuance of a management decision (Decision Administrativa) was June 10, 2019, however, the audit report receive date at the FAC was 7/24/2020, 3/21/2020 and 3/18/2020, respectively. The accountant that prepares the worksheet indicated that the information was not updated from the previous year worksheet.<br>4. Two (2) subrecipients selected for test purposes were not included on the worksheet. We reviewed the information for the two (2) subrecipients on the FAC and noted that the reports were received at the FAC on 3/30/2020 and 5/5/2020. However, these entities were not included on the control worksheet and their SAR were not evaluated prior to our tests.<br>5. At the moment of our tests, we requested copy of the worksheet for our records and to perform our tests. The accountant that maintains the control worksheet kept the file on a USB bracelet tied to a personal backpack kept in his workspace.   | We recommend that the current procedure is amended to include the requirement for the subrecipients to make a formal notification to the PRDE's program staff the Single Audit is applicable or not at the end of each fiscal year when funds were pass-through by the PRDE. Also, to formally notify the PRDE staff when the reports are submitted to the FAC. Internally, the accountant must receive a list of the contracts/grant awarded to subrecipients during each fiscal year in order to keep the control worksheet complete. | After analyzing and reviewing the previous reports, AESAN agrees with the findings. Since August 18, 2021, we have taken administrative measures and assigned the personnel to accomplish the compliance requirements that will be detailed as follows:<br><br>1. A file has been created in SharePoint that contains a bank of blank templates to be used for each fiscal year to avoid reusing old ones that can lead to manual input errors.<br>2. AESAN has created an Excel worksheet to document the institutions to which the single audit applies. The administrative assistance will use the worksheet to validate all SAR submissions against the list of institutions. Afterwards, it will be reviewed by the Program Coordinator before the accountant performs the analysis and logs in the control worksheet.<br>3. A file has been created in SharePoint to contain a bank of blank templates to be used for each fiscal year to avoid reusing old ones that can lead to manual input errors.<br>4. A file has been created in SharePoint to contain a bank of blank templates to be used for each fiscal year to avoid reusing old ones that can lead to manual input errors.<br>5. A SharePoint file has been created to transfer all existing files from all existing USBs. For the next FY a Share Point link will be enabled for each sponsor to upload a copy of the SAR submitted to the FAC. Prospectively, all worksheets and SARs will be stored in SharePoint.<br><br>As of September 23, 2021, the actions above describe are accomplish, and corrective measures had been taken.<br><br>*** Lastly it was found as the CAUSE, that our agency lacks a formal process to notification of all subrecipients for submission of audit reports; No requirement for subrecipients to inform us that there were subject to the Single Audit, and no adequate review of the information on the worksheet. Attending this matter, AESAN has development a notification letter that will be sent to all subrecipients at the beginning of the fiscal year (first notification will be sent on October 1, 2021) stating:<br>1) SAR compliance<br>2) Spending limits<br>3) Instructions for sending the SAR as soon as it is submitted to the clearing house.<br><br>Currently institutions are notified at the time of signing the agreement with the agency, as this is stipulated in the compliance clauses of the agreement. | José Narvaez Pares<br>Accountant-LI CAFCP<br><br>Evelyn F. López<br>CAFPC Coordinator<br><br>Lurdes Santiago García, AESAN<br>Director | October 1, 2021        |
| 2020-018       | 203.331, Requirements for Pass-through Entities of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the OMB Compliance Supplement | As part of our audit procedures, we obtained the list of subrecipients active during the fiscal year 2019-2020, requested the risk assessment documentation, monitoring visit schedules and documentation regarding the Single Audit report receipt, evaluation and management decisions process. We selected a sample of five (5) subrecipients to test compliance with internal control policies and compliance with the subrecipient monitoring requirement. We noted the following deficiencies during our tests:<br>1. Through interviews with the program staff that administers the funds at the PRDE and review of the subrecipient files provided to us, we noted that there was no risk assessment process made as part of the subrecipient monitoring activities during the fiscal year 2019-2020. Also, there were no on-site monitoring visits or desk reviews performed during audited period.<br>2. We requested our audit sample to test compliance with the audit resolution of the Single Audit Reports of subrecipients on September 4, 2021, after various follow-up to our request, the information was made available on September 10, 2021. On our test, we noted that the PRDE requested the subrecipients included on the sample to provide their audit reports on emails send to each subrecipient during the period from September 3, 2021 to September 6, 2021. There were no other requests or receipt of information prior to the dates mentioned before. This indicates that there were no adequate internal controls in place at the PRDE that provided reasonable assurance of complying with this requirement.<br>3. From the requests made by the Department mentioned on the previous item, the Department complete the evaluation of the reports received on September 9, 2021. Two (2) subrecipients were not subject to the Single Audit requirements and three (3) were subject to the Single Audit requirements.<br><br>From the three (3) subrecipients subject to the Single Audit, we noted the following deficiencies on the information received and the evaluation made by the PRDE staff:<br><br>a. One (1) subrecipient only send to the PRDE a copy of the Auditor's Opinion on the Financial Statements. No other information was received from the subrecipients. There were no financial statements, no Schedule of Expenditures of Federal Awards, no Schedule of Findings and Questioned Costs, among other required information. The PRDE staff evaluation indicated that the report complies with the required information. We obtained copy of the Single Audit Report for the year ended 6/30/2020 of the subrecipient from the FAC web page and noted that the Schedule of Expenditures of Federal Awards from the subrecipient submission did not include the Program's expenditure. Therefore, the program was not included within the scope of the subrecipient audit of Federal programs, this was not noted on the report evaluation made by the PRDE staff and no further actions were required to correct or clarify the lack of information on the audit report of the subrecipient.<br><br>b. A second subrecipient send copy of the Single Audit report and required information. We noted that the Schedule of Expenditures of Federal Awards did not include the expenditures of the program for the year ended 6/30/2020. Therefore, the program was not included within the scope of the subrecipient audit of Federal programs, this was not noted on the report evaluation made by the PRDE staff. The PRDE staff evaluation indicated that the subrecipient comply with the requirement and no further actions were required to correct or clarify the lack of information on the audit report of the subrecipient. | We recommend that adequate training be provided to the program staff in charge of the monitoring functions of the program in order to comply with the on-site monitoring visits and the correct evaluation of the audit reports that the subrecipients must submit and be evaluated to comply with this requirement.  | PRDE concurs with the condition. As a corrective action plan, the program will be developing robust monitoring activities based on risk assessment process for the subrecipients. These procedures will include both on-site and desk monitoring, depending on the risk assessment results. However, PRDE wants to emphasize that the program reviews expenses reports received by subrecipients and analyze and question any incongruity between funds approved and information received.<br><br>Related to condition number two and three, PRDE acknowledge that the information was requested and obtained after audit fiscal year, however the program reviewed the financial information provided by the subrecipients and any recommendation for future periods was documented during the review of financial statements.<br><br>PRDE is committed to comply with all federal and state regulations applicable to programs within the Agency. Consequently, the Agency has taken steps to strengthen internal controls, develop guidelines and procedures for completing reports, and other tasks related to meeting these requirements. As we recognize that this is an ongoing process, the program will continue to enforce policies and procedures by training all necessary staff on timeliness of procedures. Also, as part of the training to the staff, the program will ensure to deeply review the financial information included by the subrecipients, in this way ensuring that the program fully complies with the monitoring process.  | Héctor M. Rello Coto<br>Program Manager  | In Process             |

Approved by:

*[Signature]*

Date:

29/9/2021