

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, 2021

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



CPA DIAZ-MARTINEZ, CSP
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 Parés
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, 2021, 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.

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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, 2021, 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

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, 2021, 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

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 33-39, is presented for purposes of additional analysis and is not a required part of the financial statement. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement.

The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects, in relation to the financial statement as a whole.

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Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2022 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, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2025

Caguas, Puerto Rico
December 5, 2022

Stamp No. E508694 of the Puerto Rico Society of Certified
Public Accountants was affixed to the original report.

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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, 2021**

	General Fund	Title I Federal Fund	Restart Fund	Other Federal Governmental Funds	Total Governmental Funds
CASH RECEIPTS:					
Appropriations from the Commonwealth of Puerto Rico	\$ 1,545,625,265	\$ -	\$ -	\$ -	\$ 1,545,625,265
Intergovernmental - Federal Grants	-	284,556,948	207,628,398	333,584,098	825,769,444
Total Cash Receipts	<u>1,545,625,265</u>	<u>284,556,948</u>	<u>207,628,398</u>	<u>333,584,098</u>	<u>2,371,394,709</u>
CASH DISBURSEMENTS:					
Current					
General Government	18,028,441	-	-	-	18,028,441
Vocational and Technical Education	44,324,826	-	-	5,869,969	50,194,795
Community Schools	714,313,752	283,677,325	203,936,987	136,832,311	1,338,760,375
Integrated Educative Services for the Disabled	274,873,275	-	-	91,203,122	366,076,397
Food Services for Students	58,849,780	-	-	81,673,886	140,523,666
Complaints and Provisional Solutions	40,271,195	-	-	-	40,271,195
Schools' Quality of Life and Drug Free	24,580,039	-	-	-	24,580,039
Adult Education	3,106,556	-	-	6,471,186	9,577,742
Technological Institutes	6,464,381	-	-	10,214,438	16,678,819
Auxiliary Services and Technical Assistance	93,655,447	-	-	-	93,655,447
COVID-19 Internal Economic Incentive	368,051	-	-	-	368,051
Public Schools' Maintenance	43,289,895	-	-	-	43,289,895
Printing Services	558,072	-	-	-	558,072
Indirect Costs	15,979,102	-	-	-	15,979,102
Joint Resolutions	133,579,110	-	-	-	133,579,110
Special Accounts	76,946,593	-	-	-	76,946,593
Total Cash Disbursements	<u>1,549,188,515</u>	<u>283,677,325</u>	<u>203,936,987</u>	<u>332,264,912</u>	<u>2,369,067,739</u>
NET CHANGES	<u>\$ (3,563,250)</u>	<u>\$ 879,623</u>	<u>\$ 3,691,411</u>	<u>\$ 1,319,186</u>	<u>\$ 2,326,970</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 2020-2021. 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 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.
- **Restart Fund** – This fund is used to account for resources and expenditures related to the restart of elementary schools and secondary schools in areas impacted by the hurricanes, for which a major disaster or emergency is declared under section 401 or 501 of the Robert T. Stafford Disaster Relief and Emergency Act (42 U.S.C. 5170 and 5190). Funds may be used to assist school administrators and personnel in restarting school operations, re-opening schools, and reenrolling students.

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

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

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

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- *Community Schools* – This function is used to account for resources and expenditures associated with all educational and academic services offered in public schools from "kindergarten" to twelfth grade, except the services of the Special Education Program and the Vocational and Technical Education Program. The services are aimed at achieving the optimal integral development of each student in all phases of their training and at all levels of the educational system.

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

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

The 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.
- *Complaints and Provisional Solutions* – This function is used to account for resources and expenditures to attend and implement the Administrative Procedure for Special Education Complaints and the Provisional Remedy, in accordance with what is established by law, jurisprudence and applicable regulations. This program will ensure parents or guardians are provided with the alternative of contracting a related service that PRDE has not been able to provide the student, due to lack of availability, coordination or provision of the service.
- *Schools' Quality of Life and Drug Free* – This function is used to account for resources and expenditures to provides activities aimed at promoting the reduction in incidences of violence and the use of drugs, alcohol, tobacco and weapons in our schools.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- *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.

- *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

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- *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.

Notes to the Financial Statement

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

B. Stewardship, Compliance, and Accountability

Budgetary Information

The PRDE's budget is integrated within the general budget of the Commonwealth. The budget is adopted in accordance with a statutory basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Cash receipts are generally recognized when cash is received for federal financial assistance programs or other grants that are received from sources other than the Commonwealth. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

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, 2021, these payments for lease agreements amounted to approximately \$77.2 million. Additional rent paid by the PRDE for the leasing of its central offices, other warehouses and parking lots was approximately \$13.4 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 (AACA), a component unit of the Commonwealth of Puerto Rico. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to AACA.

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, 2021 amounted to \$18.7 million.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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, 2021 amounted to \$10.5 million.

G. Accounting for Retirement Plans Costs

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

In addition, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for the PRDE's fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the PRDE to its employees. This Statement requires recognition of a liability equal to the Net Pension Liability, which is measured as the Total Pension Liability, less the amount of the pension plan's Fiduciary Net Position. The Total Pension Liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. This Statement requires that most charges in the Net Pension Liability be included in pension 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 8).

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

H. Other Postemployment Benefits

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

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

3. INDIRECT COST RATE PROPOSAL

Generally, each year, the PRDE submits an indirect cost rate proposal for approval by the United States Department of Education (“the USDE”), the Audit Cognizant Agency. On 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, 2022. 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.

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

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

5. FUND ADVANCES

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, 2021, funds were advanced to PRDE for this purpose.

6. 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, 2021 under these lease agreements amounted approximately to \$77.2 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.

continue

7. RELATED PARTY TRANSACTIONS

The PRDE as part of its regular operations has transactions with other governmental institutions for different type of services such as electric power, water and sewer, and school's building leases. Most significant related party transactions for the year ended June 30, 2021, 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	\$ 34,078,828
Puerto Rico Electric Power Authority	Electric Power Service	22,885,341
Public Building Authority	School's Building Leases	<u>77,298,000</u>
Total		<u>\$ 134,262,169</u>

8. 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.

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.

8. RETIREMENT PLANS – continuation

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.

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.

continue

8. RETIREMENT PLANS – continuation

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.

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, 2021, the PRDE made payments of \$4.1 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.

8. RETIREMENT PLANS – continuation

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

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

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

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

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

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

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

- If the budget is set based on expected contributions and disbursements, in the event of adverse 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.

continue

8. RETIREMENT PLANS – continuation

Pension Plan Fiduciary Net Position

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

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

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

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

9. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

Healthcare Benefits

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

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

9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

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

Funding Policy – the contribution requirement of MIP, 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.

10. COMMITMENTS AND CONTINGENCIES

A. Federal Awards

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

The Report on Compliance with Requirements Applicable to Each Major Federal Award Program and on Internal Control over Compliance in Accordance with OMB Uniform Guidance for the year ended June 30, 2020, disclosed several instances of noncompliance with applicable laws and regulations that were considered to be material weaknesses. Of the Federal expenditures authorized for the fiscal year 2019-2020, the auditors determined that cost amounting \$96,948 are disallowed. Of this amount, by Program Determination Letter [Audit Control Number (ACN 02-20-19329)] for the ALNs 83.027 and 84.173, the U.S. Department of Education, Office of Special Education and Rehabilitative Services (OSERS) determined the recovery of the amount of \$63,542. The PRDE is now evaluating the course of action related to this matter.

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

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

10. COMMITMENTS AND CONTINGENCIES – continuation

B. Special Conditions

At the end of the FY2020, the USDE issued a letter on June 30, 2021, imposing specific conditions on all grants awarded by the 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).

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

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

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

C. Every Student Succeeds Act

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

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

In the Consolidated State Plan, 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.

continue

10. COMMITMENTS AND CONTINGENCIES – continuation

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

D. Other Audits

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

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

E. Litigation

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, for Spanish acronyms) and the recent history of financial instability in Puerto Rico, the TPFA is also necessary to ensure compliance with Federal grant requirements and fiscal accountability for 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.

10. COMMITMENTS AND CONTINGENCIES – continuation

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. On December 17, 2021, Kelleher was officially sentenced to six months in prison and a year under house arrest and a fine of \$21,000.

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

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

PROMESA Overview

Background

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

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

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.

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

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

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

Conditions for Termination of the Oversight Board

The Oversight Board 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**

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

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 confirmed PoA reduces the outstanding Commonwealth’s debt and other claims by almost 80%, from \$33 billion of existing claims to \$7.4 billion in new debt. In addition, the Commonwealth’s total debt service payments (including COFINA senior bonds) have been reduced by more than 60% to date, from \$90 billion to \$34 billion, saving Puerto Rico almost \$60 billion in debt service payments.

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 January 18, 2022, the U.S. District Court for the District of Puerto Rico issued an order to confirm the Plan of Adjustment 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 Plan of Adjustment creates a foundation for Puerto Rico’s recovery and economic growth. It represents several years of engagement by the Oversight Board, creditor groups, and the Government of Puerto Rico. It provides one-time cash payments, the issuance of new debt and contingent value instruments (CVIs), among other things. In addition, the PoA provides certain Commonwealth employees with various benefits. For instance, AFSCME, who voted to support the PoA, will receive a new 5-year Collective Bargaining Agreement (CBA), which provides a number of contractual protections including healthcare, vacation and sick accruals, and specific actions that must be taken prior to any implementation of layoffs. AFSCME represented employees will also be eligible to participate in Fiscal Plan outperformance, with a guaranteed minimum bonus of \$2,000 annually for the term of the 5-year CBA. The PoA also includes provisions to protect current and future retirees by creating a fiscally sustainable retirement system that freezes TRS and JRS pensions and establishing a pension reserve trust to provide increased confidence that future funding will be available to meet the promises made to retirees.

continue

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

The PoA provides for a more diverse retirement income by ensuring all Government employees are participating in the Act No. 106 Defined Contribution Program, enrolling teachers and judges in United States Social Security, restoring the System 2000 contributions made by employees to the individually owned Act No. 106 accounts outside of Government control, and providing \$2,600 to the Act 106 accounts of active Act No. 1-1990 / Act No. 447-1952 employees. For additional details on specific provisions included in the confirmed PoA, refer to the sixth modified eighth amended PoA for the Commonwealth 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).

The Government of Puerto Rico has yet to produce long past due Annual Comprehensive Financial Report (ACFRs) for FY2019-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

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

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.

In accordance with the definition of territorial government in law, these principles will need to be met for all covered instrumentalities, unless the Oversight Board exempts a covered instrumentality from coverage under the requirement.

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 and other covered instrumentalities have 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.

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

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

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

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.

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

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 – 2022

On January 27, 2022, the Oversight Board certified the New Fiscal Plan of the Commonwealth. After too many years of financial crisis affecting each resident and business of Puerto Rico, the end of the Commonwealth's bankruptcy is at hand.

Since the 2021 Fiscal Plan was certified, U.S. and global growth has continued to improve beyond expectations as a result of strong stimulus packages implemented to respond to the pandemic. As a result, Puerto Rico - like most U.S. states - has seen stronger than forecasted revenue performance. In addition, Puerto Rico has benefited from several meaningful increases in federal funding. As a result, program costs that were previously forecasted to be funded using Commonwealth resources are now paid by the Federal government. This in turn frees up incremental Commonwealth resources to be used in other high priority areas of public policy.

The 2022 Fiscal Plan prioritizes resource allocations across a few major themes:

- Investing in the operational capacity of government to deliver services with Civil Service Reform (CSR), including increasing salaries.
- Bring the Commonwealth in line with at least the bottom decile of states, the 2022 Fiscal Plan provides for the Pension Reserve Trust to achieve an approximate 50% funding ratio by the end of fiscal year 2031. In addition, the 2022 Fiscal Plan provides for incremental funding of a total of \$864 million for investment in enhanced police retirement benefits, \$5 million annually for healthcare coverage for retired police officers who do not yet qualify for Medicare, and \$20 million in total incremental funding over 11 years for the Symphonic Orchestra Pension Fund to address yet another existing unfunded pension liability.
- The Government must maintain fiscal responsibility by implementing a comprehensive financial management agenda to ensure that Puerto Rico never again suffers from the problems that led to the fiscal crisis in the first place. Successful implementation requires a deep-rooted change in the Government's approach to financial management. A collective commitment from Government leadership including the Governor, the CFO, the legislature, and agency heads is critical for the institutionalization and roll out of the Financial Management Agenda ("FMA"), as outlined in this Fiscal Plan.

The 2022 Fiscal Plan also continues or makes incremental investments to support frontline services and to enhance agency operations. These include funding to bolster (i) healthcare infrastructure and services, (ii) investments in public safety, (iii) investments to improve educational outcomes, and (iv) funding for critical supporting Government operations. These investments also include funds for the local portion of an Earned Income Tax Credit to encourage more formal labor market participation on the Island and needs-based scholarships for University of Puerto Rico to ensure every student on the Island can access higher education.

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

Debt Adjustment Plan (DAP)

Later, on March 15, 2022, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF, its acronym in Spanish) announced that the Debt Adjustment Plan (DAP) comes into effect, reducing the central government's total debt by 78%, from \$34 billion to \$7.4 billion. In addition to reducing the central government's total, the DAP also reduces the annual debt service (what the island will have to repay annually in principal and interest on the central government's and COFINA's debt) from \$4.2 billion to \$1.15 billion, which represents a reduction of 73%.

Additional debt restructurings have also taken place in the last five years. These are:

- In 2017, the Government Development Bank's debt was restructured. Debt reduction of more than \$2 billion (from \$5 billion to approximately \$3 billion), lowering the face value of claims by 45%.
- In 2019, COFINA's debt was restructured. Puerto Rico's consolidated debt was reduced by approximately 32%, with savings of more than \$17 billion in debt service.
- In 2019, PRASA's debt was restructured. (1) Reduction in debt service payments of approximately \$380 million over the next 10 years. (2) The elimination of \$1.0 billion in guarantee claims against the Government of Puerto Rico. (3) Access to \$400 million in new federal funds.

12. SUBSEQUENT EVENTS

Specific Conditions – Federal Fiscal Year 2022

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 USDE 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.

Hurricane FIONA – State of Emergency

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

12. SUBSEQUENT EVENTS – continuation

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

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

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 PRDE, such flexibility extends the period for completion and submission of the June 30, 2021 Single Audit from its original due date of March 31, 2022, to September 30, 2022.

On September 18, 2022, Puerto Rico was declared a major disaster area under the Stafford Act. Consistent with this declaration and the complications created by hurricane Fiona, OMB has granted a six month extension for all single audits that cover recipients in Puerto Rico and have due dates between September 18, 2022 and December 31, 2022. For the PRDE, such flexibility extends the period for completion and submission of the June 30, 2021 Single Audit from its postponed due date of September 30, 2022, to March 30, 2023.

The PRDE has evaluated subsequent events through December 5, 2022, 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, 2021**

<i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>	<i>Assistance Listing Number</i>	<i>Pass-Through Entity Identification Number</i>	<i>Pass-Through To Subrecipients</i>	<i>Total Federal Expenditures</i>
U.S. DEPARTMENT OF AGRICULTURE PROGRAMS:				
<i>Child Nutrition Cluster:</i>				
National School Lunch Program (NSLP) – Food Donation – Commodities (Non-Cash Assistance)	10.555		\$ -	\$ 8,254,942
COVID-19 National School Lunch Program (NSLP)	10.555		369,057	369,057
National School Lunch Program (NSLP)	10.555		5,103,214	5,103,214
Total National School Lunch Program (NSLP)			5,472,271	13,727,213
COVID-19 Summer Food Service Program for Children (SFSP)	10.559		20,456,447	20,456,447
Summer Food Service Program for Children (SFSP)	10.559		47,054,994	47,330,448
Total Summer Food Service Program for Children (SFSP)			67,511,441	67,786,895
Child Nutrition Discretionary Grants Limited Availability	10.579		320,813	320,813
Total Child Nutrition Cluster			73,304,525	81,834,921
<i>Other Programs:</i>				
COVID-19 Child and Adult Care Food Program (CACFP)	10.558		681,106	681,106
Child and Adult Care Food Program (CACFP)	10.558		5,069,056	5,203,376
Total Child and Adult Care Food Program (CACFP)			5,750,162	5,884,482
State Administrative Expenses for Child Nutrition	10.560		-	2,172,516
Fresh Fruit and Vegetable Program	10.582		36,909	36,909
Total U.S. Department of Agriculture Programs			79,091,597	89,928,828
U.S DEPARTMENT OF TREASURY PROGRAM:				
Puerto Rico Office of Management and Budget–Coronavirus Relief Fund	21.019	PP 2020-2248; PP 2020-23802; PP 2020-23509; PP 2021-08248; PP 2021-21108; PP 2021-17931; PP 2021-19085; Res. 2021-03; Res. 2021-06	-	65,711,978
Total U.S. Department of Treasury Program			-	65,711,978
U.S. NATIONAL ENDOWMENT OF THE HUMANITIES PROGRAMS:				
COVID-19 LSTA Cares Act Grants to States	45.310		-	288,567
Grants to States	45.310		-	1,650,188
Total U.S. National Endowment of the Humanities Programs			-	1,938,755

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, 2021

<i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>	<i>Assistance Listing Number</i>	<i>Pass-Through Entity Identification Number</i>	<i>Pass-Through To Subrecipients</i>	<i>Total Federal Expenditures</i>
U.S. DEPARTMENT OF EDUCATION PROGRAMS:				
Student Financial Assistance Programs Cluster:				
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		-	121,563
Federal Work-Study Program	84.033		-	135,049
Federal Pell Grant Program	84.063		-	5,564,863
Total Student Financial Assistance Programs Cluster			-	5,821,475
Special Education Cluster (IDEA):				
Special Education – Grants to States (IDEA, Part B)	84.027		-	86,918,681
Special Education – Preschool Grants (IDEA Preschool)	84.173		-	4,284,441
Total Special Education Cluster (IDEA)			-	91,203,122
Other Programs:				
Adult Education – Basic Grants to States	84.002		685,108	4,532,431
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010		-	283,677,325
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013		-	376,291
Impact Aid (Title VII of ESEA)	84.041		-	768,384
Career and Technical Education – Basic Grants to States (Perkins)	84.048		-	5,869,969
Education for Homeless Children and Youth	84.196		-	867,308
Twenty-First Century Community Learning Centers	84.287		3,036,891	3,441,692
English Language Acquisition State Grants	84.365		-	542,295
Supporting Effective Instruction State Grants	84.367		-	26,668,460
Grants for State Assessments and Related Activities	84.369		-	117,300
Student Support and Academic Enrichment Program	84.424		-	3,012,117
COVID-19 Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund	84.425D		-	35,161,948
COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Student Aid Portion	84.425E		-	1,662,576
COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Institutional Portion	84.425F		-	1,655,572
COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Minority Serving Institutions (MSIs)	84.425L		-	113,788
Total Education Stabilization Fund			-	38,593,884
Hurricane Education Recovery – Immediate Aid to Restart School Operations (Restart) Program	84.938A		-	203,936,987
Hurricane Education Recovery – Assistance for Homeless Children and Youth (AHCY) Program	84.938B		-	83,767
Hurricane Education Recovery – Emergency Assistance to Institutions of Higher Education	84.938T		-	961,027
Total Hurricane Education Recovery			-	204,981,781
Total U.S. Department of Education Programs			3,721,999	670,473,834

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, 2021

<i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>	<i>Assistance Listing Number</i>	<i>Pass-Through Entity Identification Number</i>	<i>Pass-Through To Subrecipients</i>	<i>Total Federal Expenditures</i>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PROGRAMS:				
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.079		-	9,873
	93.243		-	70,898
Total U.S. Department of Health and Human Services Programs			-	80,771
Total Expenditures of Federal Awards			\$ 82,813,596	\$ 828,134,166

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

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1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (“the Schedule”) includes the Federal award activities of the Puerto Rico Department of Education of the Commonwealth of Puerto Rico (PRDE) under programs of the Federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of PRDE, 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, which is *other comprehensive bases of accounting (OCBOA)*. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. It is drawn primarily from the PRDE’s internal accounting records, which are the basis for the PRDE’s Statement of Cash Receipts and Cash Disbursements and Net Changes – Governmental Funds (the “Statement”).
- B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.
- C. Pass-through entity identifying numbers are presented where available and applicable.

3. INDIRECT COST RATE

The PRDE has elected not to use the 10% de minimis indirect cost rate. The amount expended includes \$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.

4. SCHEDULE NOT IN AGREEMENT WITH OTHER FEDERAL AWARD REPORTING

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

5. EXPENDITURE ADJUSTMENT BETWEEN PROGRAMS

During fiscal year 2020-2021, PRDE made adjustments of transfers of allowable expenses from Title I and Title II to Title IV. These expenses were incurred and paid during the 2019-2020 fiscal year. In fiscal year 2020-2021 the total Title IV expenditures are \$3,012,117, of which there were transfers of expenditures from Title I to Title IV for \$731,752.50 and from Title II to Title IV for \$1,436,815.88 Adjusted expenditures are allowable under this program federal and are within the period of performance of the program.

6. ASSISTANCE LISTING NUMBER

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

continue

7. CLUSTERS

A cluster of programs means Federal programs with different Assistance Listing Numbers that are defined as a cluster of programs because they are closely related programs that share common requirements. The Schedule includes the following clusters:

<u>Cluster Title</u>	<u>Federal Program</u>	<u>Federal Assistance Listing Number</u>
Child Nutrition:	National School Lunch Program - Food Donation - Commodities (Non-Cash Assistance)	10.555
	National School Lunch Program	10.555
	COVID-19 National School Lunch Program (NSLP)	10.555
	Summer Food Service Program for Children	10.559
	COVID-19 Summer Food Service Program for Children (SFSP)	10.559
	Child Nutrition Discretionary Grants Limited Availability	10.579
	Student Financial Assistance Programs:	Federal Supplemental Educational Opportunity Grants (FSEOG)
Federal Work-Study Program		84.033
Federal Pell Grant Program		84.063
Special Education (IDEA):	Special Education – Grants to States (IDEA, Part B)	84.027
	Special Education – Preschool Grants (IDEA Preschool)	84.173

8. 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.

9. 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.

10. NON-CASH ASSISTANCE – COMMODITIES

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

11. 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.

11. SCHOOLWIDE PROGRAM FUNDS – continuation

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>Federal Assistance Listing Number</i>	<i>Name of Federal Program</i>	<i>Expenditures in the Schoolwide Fund</i>
84.010	Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	\$ 233,598,707
84.365	English Language Acquisition State Grants	-
84.367	Supporting Effective Instruction State Grants	21,615,318
N/A	Community School Program - State Funds	536,834,991
		<u>\$ 792,049,016</u>

12. CONSOLIDATED PROGRAM FUNDS

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

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

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

<i>Federal Assistance Listing Number</i>	<i>Name of Federal Program</i>	<i>Expenditures in the Consolidated Fund</i>
84.010	Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	\$ 16,645,202
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	1,329
84.287	Twenty-First Century Community Learning Centers	219,606
84.365	English Language Acquisition State Grants	92,861
84.367	Supporting Effective Instruction State Grants	1,745,422
84.424	Student Support and Academic Enrichment Program	70,537
		<u>\$ 18,774,957</u>

continue

13. COVID-19 FUNDS

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

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

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

14. SUBMISSION OF SINGLE AUDIT REPORTING PACKAGE

The Single Audit reporting package, as defined and required in 2 CFR 200 for fiscal year ended June 30, 2020, could not be submitted in a timely manner because of the effects of the Novel Coronavirus COVID-19. As further discussed in PRDE's Notes to the Financial Statement included in its audited financial statements for the same year, PRDE's activities were affected by the Executive Orders issued by the Governor of Puerto Rico, and subsequently a waiver was granted by the OMB through the issuance of the memorandum M-20-17.

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 of the June 30, 2021 Single Audit from its original due date of March 31, 2022, to September 30, 2022.

On September 18, 2022, Puerto Rico was declared a major disaster area under the Stafford Act. Consistent with this declaration and the complications created by hurricane Fiona, OMB has granted a six month extension for all single audits that cover recipients in Puerto Rico and have due dates between September 18, 2022 and December 31, 2022. For the PRDE, such flexibility extends the period for completion and submission of the June 30, 2021 Single Audit from its postponed due date of September 30, 2022, to March 30, 2023.

END OF NOTES



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

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

Honorable Eliezer Ramos Parés
Secretary
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, 2021, and the related notes to financial statement, which collectively comprise **PRDE’s** financial statement, and have issued our report thereon dated December 5, 2022. Our report includes a paragraph indicating that the financial statement only purports to present the cash receipts and cash disbursements attributable to the **PRDE**.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weakness and significant deficiency.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2021-002 to be material weakness.

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

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

Page 2

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2021-001 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 performed 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, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2025

Caguas, Puerto Rico
December 5, 2022

Stamp No. E508695 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 Parés
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, 2021. **PRDE**'s major federal programs are identified in the Summary of Auditors' Result Section of the accompanying Schedule of Findings and Questioned Costs.

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.

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.

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

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

Page 2

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:

Finding Number	Assistance Listing Number	Program (or Cluster) Name	Compliance Requirement	Questioned Costs
2021-003	21.019	Coronavirus Relief Fund	Activities Allowed or Unallowed	*
2021-004	84.027; 84.173	Special Education Cluster (IDEA)	Activities Allowed or Unallowed // Allowable Costs/Costs Principles	*
2021-005	84.010	Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	Allowable Costs/Costs Principles	*
2021-006	84.048	Career and Technical Education – Basic Grants to States (Perkins V)	Allowable Costs/Costs Principles	*
	84.425D	COVID-19 Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund		
2021-007	10.555; 10.559	Child Nutrition Cluster	Allowable Costs/Costs Principles	\$206,889 **
	84.010	Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)		
	84.027	Special Education – Grants to States (IDEA, Part B)		
	84.367	Supporting Effective Instruction State Grants		
	84.425D	COVID-19 Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund		
2021-008	45.310	Grants to States	Equipment and Real Property Management	None
	84.027; 84.173	Special Education Cluster (IDEA)		
	84.425D	COVID-19 Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund		
2021-010	84.027; 84.173	Special Education Cluster (IDEA)	<u>Procurement</u> and Suspension and Debarment	None
2021-011	10.555; 10.559	Child Nutrition Cluster	<u>Procurement</u> and <u>Suspension</u> and Debarment	None
2021-013	84.010	Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	Special Test and Provisions	None
2021-014	84.007; 84.033; 84.063	Student Financial Assistance Programs Cluster	Special Test and Provisions	None
2021-015	84.007; 84.033; 84.063	Student Financial Assistance Programs Cluster	Special Test and Provisions	None
Total Questioned Costs				\$206,889

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

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

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

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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, 2021.

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, 2021.

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 2021-009, 2021-016, 2021-017 and 2021-018. Our opinion on each major Federal program is not modified with respect to these matters.

PRDE's response to the noncompliance findings identified in our audit 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 and 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 Parés, Secretary
Puerto Rico Department of Education
of the Commonwealth of Puerto Rico**

Page 4

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 2021-003 through 2021-008, 2021-010, 2021-011, 2021-013 through 2021-015 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2021-009, 2021-012, 2021-016 through 2021-018 to be significant deficiencies.

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, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2025

Caguas, Puerto Rico
December 5, 2022

Stamp No. E508696 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
- Child and Adult Care Food Program
 - Twenty-First Century Community Learning Centers
 - Student Support and Academic Enrichment Program
 - COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Student Aid Portion
 - COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Institutional Portion
 - COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Minority Serving Institutions (MSIs)
- Qualified Opinion
- Career and Technical Education – Basic Grants to States (Perkins V)
 - Child Nutrition Cluster
 - Coronavirus Relief Fund
 - COVID-19 Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund
 - Grants to States
 - Special Education Cluster (IDEA)
 - Student Financial Assistance Programs Cluster
 - Supporting Effective Instruction State Grants
 - Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)
- Adverse Opinion Disclaimer Opinion

continue

SECTION I – SUMMARY OF AUDITORS’ RESULTS

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

Yes

No

Identification of Major Federal Programs:

ASSISTANCE LISTING NUMBER	NAME OF FEDERAL PROGRAM OR CLUSTER
10.555; 10.559; 10.579	Child Nutrition Cluster
10.558	Child and Adult Care Food Program (CACFP)
21.019	Coronavirus Relief Fund
45.310	Grants to States
84.007; 84.033; 84.063	Student Financial Assistance Programs Cluster
84.010	Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)
84.027; 84.173	Special Education Cluster (IDEA)
84.048	Career and Technical Education – Basic Grants to States (Perkins V)
84.287	Twenty-First Century Community Learning Centers
84.367	Supporting Effective Instruction State Grants
84.424	Student Support and Academic Enrichment Program
84.425D	COVID-19 Education Stabilization Fund: Elementary and Secondary School Emergency Relief Fund
84.425E	COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Student Aid Portion
84.425F	COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Institutional Portion
84.425L	COVID-19 Education Stabilization Fund: Higher Education Emergency Relief Fund (HEERF) – Minority Serving Institutions (MSIs)

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

FINDING REFERENCE NUMBER	2021-001
TYPE OF FINDING	SIGNIFICANT DEFICIENCY
CRITERIA	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.
CONDITION	As part of our audit processes on the personnel and payroll processes, both for financial purposes and for Federal programs, as applicable, we selected a sample of two hundred thirty (230) employees. The following deficiencies were found: <ol style="list-style-type: none"> 1. The PRDE was unable to provide the personnel file of an employee assigned to the consolidated funds program. 2. When evaluating vacation and sick leave balances and accumulations on our payroll tests, we found a discrepancy in how time is accumulated for some employees. Depending on their position, some employees of the PRDE have a seven and a half hour workday, but the KRONOS system used to register hours worked is set up to count 7.3 hours instead of 7.5 hours. The time worked appears as 7.3 on the system, but on the vacation and sick leave calculation the correct 7.5 hours is used. This creates a discrepancy for employees with that workload when we calculated the numbers ourselves as part of our testing to ensure accuracy of those balances.
CONTEXT	This deficiency is a systemic problem related to the time and attendance system.
CAUSE	The PRDE does not have adequate control over the file of personnel files. The KRONOS system's programming is configured to accumulate leave balances taking into account hours worked incorrectly.
EFFECT	The leave balance is accruing and recognizing the use of hours worked inconsistently. In addition, we were unable to audit a personnel file.
IDENTIFICATION AS A REPEAT FINDING	Not previously reported.
RECOMMENDATION	We recommend the PRDE to validate the computation of licenses and hours worked, so that both consider the periods in the same way. In addition, the PRDE must continue efforts to locate the personnel file that was not provided for audit.

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER 2021-001 – continuation

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

Due to the pandemic, the weather condition during the fiscal year and to that is added the large volume of transactions that is carried out in the assistant secretary of human resources, the PRDE was not able to provide the missing personnel file. Although, PRDE is committed to comply with all federal and state regulations applicable. Consequently, PRDE has taken the steps and effort to locate the file and have it available for the auditors.

Also, PRDE will validate the sick and vacation licenses discrepancies with the system administrator during the current fiscal year and perform any adjustment in order to correct the computation if considered necessary.

IMPLEMENTATION DATE Current Fiscal Year

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

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2021-002
TYPE OF FINDING	MATERIAL WEAKNESS
CRITERIA	2 CFR § 200.514 Scope of audit. (a) General. The audit must be conducted in accordance with GAGAS. The audit must cover the entire operations of the auditee, or, at the option of the auditee, such audit must include a series of audits that cover departments, agencies, and other organizational units that expended or otherwise administered Federal awards during such audit period, provided that each such audit must encompass the financial statements and Schedule of Expenditures of Federal Awards for each such department, agency, and other organizational unit, which must be considered to be a non-Federal entity. The financial statements and Schedule of Expenditures of Federal Awards must be for the same audit period. (b) Financial Statements. The auditor must determine whether the financial statements of the auditee are presented fairly in all material respects in accordance with generally accepted accounting principles.
CONDITION	<p>In the evaluation of financial information of the PRDE we found the following deficiencies:</p> <ol style="list-style-type: none"> 1. Annually, the PRDE receives funds from the Commonwealth for the operation of the Office for the Improvements of Public Schools (OMEP) as part of the General Fund appropriation and other Special Funding. During our audit procedures of the financial statement of the PRDE, we noted that the PRDE only accounts for the payroll and fringe benefit expenditures appropriated for the fiscal year. The other funds appropriated on the budget approved are transfers to the OMEP separate bank accounts from which payments for other budgeted expenditures related to the OMEP operations are drafted, OMEP maintains separate accounting for these funds and are not subject to the PRDE's supervision or fiscal oversight. However, for the year under audit the final liquidation of funds not expended by OMEP (amounting to \$1,587,952) was received after the year end closeout period and was registered on the next fiscal year as a reduction of expenditures of the following year. 2. The PRDE provided us with bank statements of separate cash accounts that are managed in two offices within the PRDE. We noted the following deficiencies: <ol style="list-style-type: none"> a. The PRDE maintains a separate bank account managed by the Special Education program staff. This account is used for a transportation scholarship program for special education students. The PRDE only accounts for the transfer of state funds to the separate bank account on its SIFDE accounting system. There is no reconciliation or accounting of the actual payments made to the participants of the program. During fiscal year 2020-2021, the transfers made to this bank account totaled \$1,664,962, and a total of \$822,583 were used in payments to scholarship beneficiaries. As of June 30, 2021, the bank balance of this account was \$1,344,504 which includes the excess of transfers over payments for the year 2020-2021 and surplus from previous fiscal years. b. The other bank account is managed by the Technical and Occupational Education program staff. This account is used for the deposit of tuition costs of student's enrollment on the Technical Institutions of the PRDE. The transactions of this bank account are not recognized in the SIFDE accounting system of the PRDE. We were only able to obtain a copy of the bank statements for this account, but not information on deposits or payments made with the bank account during the fiscal year. Deposits received in this account during fiscal year 2020-2021 were \$364,701 and disbursements made were \$378,899. As of June 30, 2021 the bank balance of this account was of \$205,439.
CONTEXT	This is a systematic deficiency. The PRDE keeps part of the accounting and transactions of OMEP and the cash account of the special education program in a separate system. OMEP previously performed an audit of its transactions, but the last report issued was for the fiscal year 2017-2018. In addition, the deposits and disbursements of the bank account that manage by the technology program are not accounted or subject to the internal controls of PRDE .

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER 2021-002 – continuation

CAUSE The PRDE does not maintain adequate supervision and accountability of all funds appropriated from the Puerto Rico general fund budget as part of the year end closeout process. 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. In relation to the bank account that manages the special education program, the scholarship program is determined by the MIPE system, and multiple payments are made to a debit card so that the parents of the participants can access the money. This information is kept in MIPE, and is not reconciled with SIFDE. In relation to the bank account that manages the technology program, since it is not in the accounting system of the PRDE, SIFDE, the use and origin of the funds could not be corroborated.

EFFECT 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. In addition, the PRDE is not including as part of its operations, the expenses incurred in the two programs that maintain separate bank accounts.

IDENTIFICATION AS A REPEAT FINDING This is a repeat finding (Finding Reference Number 2020-001).

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

VIEWS 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, the accounting for OMEP operations is integrated within the PRDE financial and accounting system. This change takes place during the months of March and April of 2022. 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.

For conditions two and three, the PRDE will be required to perform a monthly reconciliation of both accounts. In this way the PRDE will have control of all transfers and payments performed during the period and provide a detail of the transaction for any monitoring and audit process required.

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER **2021-002 – continuation**

IMPLEMENTATION DATE Current Fiscal Year

RESPONSIBLE PERSON Evelyn Rodríguez Cardé
Finance Director

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2021-003
FEDERAL PROGRAM	(ALN – 21.019) CORONAVIRUS RELIEF FUND PASS-THROUGH: PUERTO RICO OFFICE OF MANAGEMENT AND BUDGET U.S. TREASURY DEPARTMENT
AWARD NUMBER	PP 2021-17931
COMPLIANCE REQUIREMENT	ACTIVITIES ALLOWED OR UNALLOWED
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA OR SPECIFIC REQUIREMENT	<p>2 CFR Section 200.303 (a) establishes that the non-Federal entity must establish and maintain effective internal control over the Federal Award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.</p> <p>In addition as set forth in Section 601(d) of the Social Security Act, payments must be used to cover costs that are:</p> <ol style="list-style-type: none"> 1. Necessary expenditures incurred due to the public health emergency with respect to COVID-19. 2. Not accounted for in the government’s most recent approved budget as of March 27, 2020. 3. Incurred during the period that begins on March 1, 2020; and ends on December 31, 2021.
CONDITION	<p>During our audit procedures regarding activities allowed or unallowed of the program, we were provided with a detail of the projects carried out with the funds. One (1) of the projects was the one contemplated in PP-2021-17931 dated 11/17/2020, where funds were requested for the disinfection of schools as part of the resumption of work activities and in preparation for the return of teachers and students. This project was worked on by the Office for the Improvement of Public Schools (OMEPS) with a total budget of \$7,888,241.50. When we requested the disbursements details supporting the \$7,888,241.50 we were provided with a list of paid invoices totaling that amount. As part of our tests, we selected a sample of these invoices and when evaluating them, we noticed the following situations:</p> <ol style="list-style-type: none"> 1. In eight (8) of the invoices evaluated, the supporting documents provided for evaluation did not agree with the information in the detail of the invoices. They have differences in invoice number and amount, voucher number and amount, check number and amount, payment date and services provided. 2. In two (2) of the invoices, the name of the school described as having received the services in the supporting documents is not the same school that is presented in the detail of the invoices. 3. In one (1) of the invoices, the description included in the invoice detail does not match the services described in the supporting documents. 4. Two (2) of the invoices evaluated had to do with disinfection related to the voting centers related to the primaries held in Puerto Rico in the month of August 2020.
QUESTIONED COSTS	Undetermined.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2021-003 – continuation
CONTEXT	<p>The deficiency is caused by a lack of adequate internal controls on the part of the PRDE to OMEP to monitor the management of the projects assigned to them. In addition, OMEP does not have adequate internal controls and training for handling federal funds to ensure compliance with the requirements of federal programs. In this particular situation, an adequate review of the detail of invoices and supporting documents provided that support the total amount spent was not maintained. Among the supporting documents that did not agree with the detail of invoices were services invoiced in September 2019 and that were not related to disinfection services but to regular maintenance of the schools. In addition, it should be noted that face-to-face classes did not begin until 2021.</p>
CAUSE	<p>The PRDE did not establish adequate internal controls to verify that the information provided by OMEP to support the cost of the school disinfection project was correct and consistent with the services that were provided and required and the purpose of the project of the Federal program. In addition, OMEP did not adequately prepare the detail of invoices paid, therefore, when providing the supporting documentation, it did not correspond to the detail prepared. OMEP does not have adequate internal controls to ensure that the supporting documentation, as well as the payments made, are consistent with the activities permitted within the Federal program funds assigned to the project.</p>
EFFECT	<p>The PRDE may engage in activities that are not permissible under the Federal program, which would cause them to have to return funds to the Federal government and that the use of the allocated federal funds is not being maximized. In addition, the PRDE may be paying for services that were not provided in accordance with the activities that were required.</p>
IDENTIFICATION AS A REPEAT FINDING	<p>Not previously reported.</p>
RECOMMENDATION	<p>We recommend that the PRDE establish adequate and effective internal controls to monitor the use of the funds assigned to OMEP. In addition, we recommend that OMEP be provided with the appropriate training for the management of Federal funds and the importance that the supporting documentation regarding the expenses incurred must be correct and in accordance with the requirements of the Federal program.</p>
VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION	<p>To minimize the instances identified, the PRDE integrated the financial and accounting operations of OMEP. This integration was carried out in the months of March to April 2022. Therefore, the accounting runs under a single financial system with the proper internal controls and monitoring processes established by the DEPR and the TPFA, for compliance with federal and state funds.</p> <p>Also, training was provided to the OMEP financial and management personnel for the management of federal funds and requirements of supporting documents for federal funds as well as allowable expenses under federal programs.</p> <p>PRDE is committed to comply with all federal and state regulations applicable to programs within the Agency. Consequently, the Agency has taken steps to strengthen internal controls, develop guidelines and procedures for completing reports, and other tasks related to meeting requirements. As we recognize that this is an ongoing process, the program will continue to enforce policies and procedures by training all necessary staff on timeliness of procedures.</p>

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2021-003 – continuation

IMPLEMENTATION DATE Current Fiscal Year

RESPONSIBLE PERSON Evelyn Rodríguez Cardé
Finance Director

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2021-004
FEDERAL PROGRAM	(ALN – 84.027) SPECIAL EDUCATION – GRANTS TO STATES (IDEA, PART B) – SPECIAL EDUCATION CLUSTER (ALN – 84.173) SPECIAL EDUCATION – PRESCHOOL GRANTS (IDEA PRESCHOOL) – SPECIAL EDUCATION CLUSTER U.S. DEPARTMENT OF EDUCATION
AWARD NUMBER	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)
COMPLIANCE REQUIREMENT	ACTIVITIES ALLOWED OR UNALLOWED // ALLOWABLE COSTS/COSTS PRINCIPLES
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA OR SPECIFIC REQUIREMENT	2 CFR Section 200.302 (a) establishes that each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state'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.
CONDITION	As part of our procedures over internal controls and compliance for the allowable activities' requirement, we selected a sample of eighty one (81) disbursements to suppliers made during fiscal year under audit. We noted the following deficiencies: <ol style="list-style-type: none"> 1. In eight (8) instances, we were not provided evidence of the need for the service or who required the contracted service. 2. In a disbursement for the purchase of some materials described as "5-set prime logic board", the receiving reports provided stated "4-set prime logic board" in the description. In addition, 542 sets were purchased, but there is only evidence for delivery of 316 sets. 3. In two (2) vouchers evaluated, no evidence of receipt of the equipment was provided. 4. In six (6) vouchers evaluated related to therapy and evaluation services, the detail of the charges for each participant presented adjustments which were not considered when the payments were made and no justification or comment was provided. In addition, in two (2) disbursements, we were not presented with evidence of service certification, and the invoices were adjusted without any comments in the system. 5. In three (3) disbursements related to training services for Special Education Program personnel, in one (1) disbursement the attendance of forty (40) people was billed, but according to the information provided, only the attendance of thirty-nine (39) people was validated and there was no evidence of adjustment to the invoice. In the other two (2) disbursements, we were not presented with evidence of participant attendance.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2021-004 – continuation

6. In one (1) disbursement related to professional services, the contractor's invoice indicates that seventy-eight (78) hours incurred in the month of August that had not been invoiced are being included in the September invoice. No evidence was presented of the detail of the work performed corresponding to the seventy-eight (78) hours billed.
7. In one (1) disbursement related to a workshop for teachers, materials costs are included in the amount of \$253,588. According to the proposal and contract, the cost of materials would not exceed \$118,925.30. Material costs were included in the invoice that were not included in the proposal.
8. In twelve (12) vouchers evaluated, it was found that the invoiced expenses corresponded to both cluster programs (ALN –84.027 and ALN –84.173), and the invoices established this. However, the expenses in the system were recognized in grant 84.027, not according to the participants attended and invoiced, according to their age.

QUESTIONED COSTS Undetermined.

CONTEXT 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.

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

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

EFFECT The PRDE is reporting expenses within the cluster that do not necessarily reflect the actual expenses incurred by each program in the cluster, this deficiency requires that when the period of availability of funds is ending, some adjustments be made to reclassify expenses, up to the amount of the award. In addition, the PRDE may have incurred payments for which the service or good were not provided as contracted.

IDENTIFICATION AS A REPEAT FINDING This is a repeat finding (Finding Reference Number 2020-002).

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.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2021-004 – continuation

VIEWS OF RESPONSIBLE
OFFICIALS AND PLANNED
CORRECTIVE ACTION

Condition 1

PRDE properly performed the review and approval of services in compliance with federal guidance and the internal control established by the PRDE. The evidence was requested to the personnel in charge of the approval. Although, PRDE was not able to provide documentation on a timeline basis to the auditors. Consequently, PRDE 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.

Condition 2

The PRDE reviewed the information provided, and confirmed that the evidence related to the change in the materials was not provided. After reviewing the information, the evidence was requested from the personnel responsible for approval and the supporting document was provided to the program. The PRDE recognizes that the information was not provided in time to clarify the instance. Although, PRDE performed the process in accordance of the internal control established and will required in the future a better proof of documentation from the suppliers and receiving department.

Condition 3

PRDE recognized that was not able to provide documentation on a timeline basis to the auditors. Although, PRDE performed the process in accordance of the internal control established and the required documentation will be available for review. PRDE will continue to enforce the policies and procedures in order to provide the information in a more efficient and faster way.

Condition 4

PRDE evaluated the service provided for therapy and evaluation for the six (6) instances, comments to adjustments made to invoices for each participant was included in MiPE system . Although, management recognized that was not able to provide documentation on a timeline basis to the auditors. The program will continue to enforce the policies and procedures in order to provide the information in a more efficient and faster way.

Condition 5

The DEPR went through the information that was provided with the supporting document stating that a total of 40 people attended the training. However, the documentation was not clear and created a disparity. In the future, the program will ensure that the information provided is well identified and free of errors, thus avoiding a misunderstanding and maintaining a better record of the documents. In relation to the other disbursements, the documentation was not provided in the established time, although, it is available for review. Therefore the PRDE will continue to enforce the policies and procedures so that in the future it can provide the information in an efficient manner and in a reasonable time.

Condition 6

The PRDE reviewed the information provided, and confirmed that the evidence related to the additional hours billed was not provided. After reviewing the information, the evidence was requested from the personnel responsible for approval and the supporting documents of the work performed corresponding to the seventy-eight (78) hours was provided to the program. The PRDE recognizes that the information was not provided in time to clarify the instance, therefore the PRDE will continue to enforce the policies and procedures so that in the future it can provide the information in an efficient manner and in a reasonable time.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2021-004 – continuation

Condition 7

After reviewing the information provided, the PRDE confirmed that the changes made to the proposal for the increase in material costs were not actually available in the file. The program will be in charge of compiling the information and upload it into the financial system. The PRDE recognizes that documentation backup policies must be improved, for which the program will enforce the policies and procedures to provide the information in an efficient manner and in a reasonable time, also provide training to the personnel related to the backup policies and enforce the compliance.

Condition 8

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

IMPLEMENTATION DATE Current Fiscal Year

RESPONSIBLE PERSON Enid Díaz
Director of Administration

Jessica Díaz
Acting Associate Secretary

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2021-005
FEDERAL PROGRAM	(ALN – 84.010) TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES (TITLE I, PART A OF THE ESEA) U.S. DEPARTMENT OF EDUCATION
AWARD NUMBER	S010A180052 (07/01/2018 – 09/30/2019)
COMPLIANCE REQUIREMENT	ALLOWABLE COSTS/COSTS PRINCIPLES
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA OR SPECIFIC REQUIREMENT	2 CFR Section 200.302 (b)(4) establishes that the financial management system of each non-Federal entity must provide effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. In 2 CFR 200.405 (a)(1) establishes that a cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost: is incurred specifically for the Federal award. In addition, 34 CFR 76.702 establishes that a State and a subgrantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds.
CONDITION	As part of our audit procedures over internal controls and compliance for the allowable activities' requirement, we selected a sample of forty three (43) disbursements to suppliers made during the fiscal year under audit. In one (1) instance, we found that the PRDE issued a payment for the total amount of the contract with the supplier and not for the amount of the invoice received. When the supplier received the overpayment, he returned the difference to the PRDE .
QUESTIONED COSTS	Undetermined.
CONTEXT	This deficiency is a systemic problem that is related to lack of proper training and controls that requires standard evaluation and approval of expenditures incurred. When the invoice reaches the payer, he must review the invoice and fix the amount entered by the supplier in the system before making the payment.
CAUSE	According to the interview, the supplier uploads the invoice to the SIFDE system and writes the total amount of the contract instead of the invoiced amount. We noted that in SIFDE, no one verified the information registered by the supplier against the invoice submitted in SIFDE.
EFFECT	The PRDE incurred in overpayments to suppliers for services not rendered to the PRDE .
IDENTIFICATION AS A REPEAT FINDING	Not previously reported.
RECOMMENDATION	We recommend that the PRDE has to reassess the internal controls that validate the invoice with the system.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2021-005 – continuation

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

Management concurs with the auditors finding, even though, this is considered an isolated case since only one (1) of the forty-three (43) disbursements selected for sampling had this observation. Although the PRDE have in place controls to identify these improper disbursements, the agency will be evaluating the approval processes together with the Third-Party Fiduciary so that these incorrect disbursements do not occur. Also, PRDE will provide trainings to the finance department related to the evaluation and approval of expenditures process.

IMPLEMENTATION DATE Current Fiscal Year

RESPONSIBLE PERSON Evelyn Rodríguez Cardé
Finance Director

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2021-006
FEDERAL PROGRAM	(ALN – 84.002) ADULT EDUCATION – BASIC GRANTS TO STATES (ALN – 84.048) CAREER AND TECHNICAL EDUCATION – BASIC GRANTS TO STATES (PERKINS V) (ALN – 84.425D) COVID-19 EDUCATION STABILIZATION FUND: ELEMENTARY AND SECONDARY SCHOOL EMERGENCY RELIEF FUND (ALN – 84.938A) HURRICANE EDUCATION RECOVERY – IMMEDIATE AID TO RESTART SCHOOL OPERATIONS (RESTART) PROGRAM U.S. DEPARTMENT OF EDUCATION
AWARD NUMBER	V002A190053 (07/01/2019 – 09/30/2020); V048A190052 (07/01/2019 – 09/30/2020); S425D200029 (06/16/2020 – 09/30/2021); S938A18002 (04/26/2018 – 04/26/2020).
COMPLIANCE REQUIREMENT	ALLOWABLE COSTS/COSTS PRINCIPLES
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA OR SPECIFIC REQUIREMENT	Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards Subpart E establishes the requirements for Cost Principles - Allowable Costs under federal awards. This Section at § 200.403 discloses factors affecting allowability of costs – states that costs must meet the following general criteria in order to be allowable under Federal awards: (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles and (g) Be adequately documented. Section § 200.404 Reasonable costs add: A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost including (c) Market prices for comparable goods or services for the geographic area. Also, § 200.405 Allocable Costs include that: A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received; including (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods.
CONDITION	On our internal control and compliance tests of disbursements of the Consolidated Funds (Administration SEA/LEA), we selected a payment of professional services of Third Party Fiduciary Agent Services ("TPFA") through voucher number 01023341 date June 1, 2021 for \$3,143,750. During our test, we noted the following conditions: 1. Reasonableness of costs: The payment made to the vendor is a "flat fee" monthly payment agreed to in the professional service contract. Although the vendor invoice includes a detail of hours of service and expense summary, this information is solely for "informational purposes" and not to be taken into account for the actual invoice payment process. The monthly payment amount only consideration is the agreed upon "flat fee". In the invoice evaluated on voucher 01023341, the vendor includes a total hours incurred of 2,166.75 with price per hour range from \$175 to \$700. Also, the invoice includes an expense summary of \$1,066,883.68. When we compared the actual payment to the hours incurred and related expenditures, we noted an unreasonable charge to the PRDE and its Federal funds based upon the payment being made versus the actual service hours/expenses included on the invoice.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2021-006 – continuation

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

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

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

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

QUESTIONED COSTS

Undetermined.

CONTEXT

The total contract amount awarded for the services over the two year period is \$79,675,000 based on the inconsistent cost allocation method and the lack of a requirement of the payments being made for actual works performed, we considered this a systematic problem in the contract management and payment.

CAUSE

The **PRDE** did not include on the RFP process and the contract negotiation, a clause that requires that the payment of services will be made upon actual hours incurred or that a final reconciliation process will be made during the contract period of performance based on actual service hours and expense incurred. The **PRDE** agreed upon a "flat fee" contract based on an estimate / budget of hours presented by the vendor on its proposal without considering the requirement of adjusting the payment for actual workhours incurred as part of its contract negotiation. Also, the **PRDE** staff did not took into consideration the independent cost estimate/rates in order to negotiate a better price for the services. There is no consistent treatment or basis for the allocation of the payment costs between federal programs and state funds. The contract includes the accounting codes that can be charge for the contract costs; however no amounts, limitations, or basis for the cost's distributions were included on the contract or in the payment documentation.

EFFECT

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

IDENTIFICATION AS A REPEAT FINDING

Not previously reported.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2021-006 – continuation

RECOMMENDATION

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

VIEWS OF RESPONSIBLE
OFFICIALS AND PLANNED
CORRECTIVE ACTION

Management Response for Finding 2021-006 – Condition 1

PRDE does not agree with this Condition 1 of finding (Reasonableness of Costs), its effect, nor the issued recommendation. PRDE's Procurement Office was not contacted by the audit team regarding the details of the TPFA procurement. Several files supporting the TPFA procurement process are available at the PRDE Procurement Office, supporting the determinations made by the PRDE Evaluation Committee in this matter.

"PRDE had never worked on a procurement of this magnitude for the type of service being procured. To seek guidance and ensure compliance with USDE requirements, PRDE sought approval from USDE." USDE reviewed and approved the RFP and all the procurement terms established therein, prior to issuance. This included the establishment of "flat fee" for a portion of the services. Hence, Condition 1 is not sustained.

"The final "flat fee" that was established between the parties, was the result of the negotiations held between PRDE and the selected vendor, and the related files are available for review." This information has not been reviewed by the auditors. Hence, Condition 1 is not sustained.

"As established in the contract between the parties, the "flat fee" amount charged does not change in line with the amount of work performed. Therefore, comparing the actual payment made to the hours and expenditures incurred is not congruent with the established terms." The use of the term "unreasonable charge" has no basis. Therefore Condition 1 is not sustained.

"The contract between the parties established a "flat fee," regardless of the level of participation and costs incurred by the vendor." When the vendor incurs costs that, if accounted for using standard billing rates, amount to a figure below the "flat fee," such "cost savings" correspond to the vendor, and they are not transferred to PRDE. However, when the vendor incurs costs that, if accounted for using standard billing rates, amount to a figure above the "flat fee," such "cost excesses" are exclusively borne by the vendor; they are not transferred to PRDE at all. Hence, Condition 1 and the use of the term "unreasonable charge" is not sustained.

Absent from the Condition 1 text is the fact that PRDE has a full-time team in place whose objective is to continuously monitor vendor performance and quality. Should a service performance or quality dispute arise, the contract includes a dispute resolution clause that may be activated. This mechanism was deliberately established by PRDE to, effectively, prevent the possibility of an "unreasonable charge" by the vendor. Hence, Condition 1 is not sustained. In line with the above, the use of the term "unreasonable charge" has no basis. This Condition 1 is not sustained at all. PRDE disagrees.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2021-006 – continuation

Auditor Comment on Management Response for Finding No. 2021-006 – Condition 1

As stated in CONDITION 1., “When we compared the actual payment to the hours incurred and related expenditures, we noted an unreasonable charge to the PRDE and its Federal funds based upon the payment being made versus the actual service hours/expenses included on the invoice.” The auditors requested all information regarding this process and interviewed the Puerto Rico Secretary of Education and the Finance Director. We evaluated all documentation provided, including the procurement process. Our determination of unreasonable rate is based on the fact that, if we subtract the expense summary of amount of \$1,066,883.68 (for which no evidence was provided by the vendor), included in the invoice, a total amount of \$2,076,866.32 remains for actual hours billed. Based on the total hours included in the invoice of 2,166.75, an average of \$958.52 fee for hour is determined, and this amount exceeds the price per hour range from \$175 to \$700, presented by the vendor. The Finding prevails and correspond to the US Department of Education the final determination.

Management Response for Finding 2021-006 – Condition 2

PRDE does not agree with Condition 2 of finding (Independent Price Estimate), its effect, nor the issued recommendation. PRDE further states that the Information regarding the hourly rates is available in the procurement file. Evidently, such information was not reviewed by the auditors. Hence, Condition 2 is not sustained.

The documentation related to the independent price estimate exercise performed by the PRDE Procurement Office is on the file. Among other items, such exercise yielded the following:

Local billing rates were expected to be between \$65 and \$352 per hour.

US General Services Administration (GSA) billing rates were in the range between \$4 and \$669 per hour.

"Despite the above, because, as requested in the RFP, the proposal only presented fixed prices (i.e. the “flat fee”), it was not feasible for PRDE to request any “adjustments to the hourly rates as part of the contract process,” as stated by the auditors. “However, based on the staffing plans presented in the proposal, PRDE carried out an independent assessment of the prices presented by the vendor, and found them to be congruent with GSA rates. Hence, Condition 2 is not sustained.

"Towards the end of the proposal evaluation process, PRDE requested the proposer to present a BAFO (a “best and final offer”). The BAFO amount presented by the winning proposer represented a discount of 4.8 %. This process is evidenced in the procurement file."It negates the statement claiming that the auditors “did not find any information of the PRDE requesting adjustments to the hourly rates as part of the contract process.” Hence, Condition 2 is not sustained. In line with the above, the statement that “no further actions were documented regarding the significant gap between the independent costs estimate versus the vendors proposed hourly rates” is unfounded and inaccurate. This Condition 2 is not sustained at all.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2021-006 – continuation

Auditor Comment on Management Response for Finding No. 2021-006 – Condition 2

As stated in CONDITION 2., “The independent costs estimate prepared by the PRDE evaluation committee of the RFP and noted that per hour price ranges were from \$65 to \$352; however the vendors proposal and invoice include per hour ranges starting at \$175 to \$750, rates which are significantly higher than the estimate made by the PRDE.” We observed and evaluated all the information provided, including the independent costs estimate. As stated above, the hourly price range in the invoice evaluated is \$958.52. The Finding prevails and correspond to the US Department of Education the final determination.

Management Response for Finding 2021-006 – Condition 3

PRDE does not agree with Condition 3 of finding (Allocability), its effect, nor the issued recommendation. PRDE further states that the allocation of funds is the result of conversations between PRDE and USDE, USDE authorizations for funds availability, and actual availability of federal funds in PRDE and the allocation of costs is based on availability, allowability and compliance with Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards Subpart E. In line with the above, Condition 3 is not sustained at all.

Auditor Comment on Management Response for Finding No. 2021-006 – Condition 3

As stated in CONDITION 3., “The PRDE staff could not provide the basis used to distribute the cost between the different programs and state funds in accordance with the benefit obtained from the costs incurred. The allocations were made based on availability of funds on each program's budget, the contract does not include any basis for the allocation of costs nor was there any basis for the allocation included on the payment documentation.” The deficiency is related to documentation of the benefit obtained from the costs incurred on each program. The Finding prevails and correspond to the US Department of Education the final determination.

IMPLEMENTATION DATE Not applicable

RESPONSIBLE PERSON Jesús González
Subsecretary of Administration

Norma Rolón
Purchasing Division Director

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2021-007
FEDERAL PROGRAM	(ALN – 10.555) NATIONAL SCHOOL LUNCH PROGRAM (NSLP) – CHILD NUTRITION CLUSTER (ALN – 10.559) SUMMER FOOD SERVICE PROGRAM FOR CHILDREN (SFSP) – CHILD NUTRITION CLUSTER (ALN – 10.560) STATE ADMINISTRATIVE EXPENSES FOR CHILD NUTRITION U.S. DEPARTMENT OF AGRICULTURE (ALN – 84.010) TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES (TITLE I, PART A OF THE ESEA) (ALN – 84.027) SPECIAL EDUCATION – GRANTS TO STATES (IDEA, PART B) (ALN – 84.367) SUPPORTING EFFECTIVE INSTRUCTION STATE GRANTS (ALN – 84.425D) COVID-19 EDUCATION STABILIZATION FUND: ELEMENTARY AND SECONDARY SCHOOL EMERGENCY RELIEF FUND U.S. DEPARTMENT OF EDUCATION
AWARD NUMBER	1PRAEA17SCESUBA (10/01/2017 – 09/30/2018); 1PRAEA18SCESUBA (10/01/2018 – 09/30/2019); 1PRAEA19SCESUBA (10/01/2019 – 09/30/2020); 1PRAEA20SCESUBA (10/01/2020 – 09/30/2021); 201PR300306 (07/01/2020 – 09/30/2021); H027A16003 (07/01/2016 – 09/30/2017); H027A17003 (07/01/2017 – 09/30/2018); H027A18003 (07/01/2017 – 09/30/2018); S010A160052 (07/01/2016 – 09/30/2017); S010A170052 (07/01/2017 – 09/30/2018); S041B20135689 (10/01/2012 – 09/30/2013); S367A180052 (07/01/2018 – 09/30/2020); S425D200029 (06/16/2020 – 09/30/2021).
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 or incorrect payments made for payroll transactions in the amount of \$4,665,820. Invoices issued during the fiscal year ended June 30, 2021 balance, were distributed as federal and state, as follows:

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2021-007 – continuation**

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

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

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

CONTEXT The amount of \$4,665,820, corresponds to incorrect payroll payments made from prior years, for which during fiscal year 2020-2021, 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.

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

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

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

IDENTIFICATION AS A REPEAT FINDING This is a repeat finding (Finding Reference Number 2020-005).

RECOMMENDATION 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.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2021-007 – continuation

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

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.

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.

IMPLEMENTATION DATE Already Implemented

RESPONSIBLE PERSON Judith Parilla
Accounts Receivable Supervisor

Evelyn Rodríguez Cardé
Finance Director

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2021-008
FEDERAL PROGRAM	(ALN – 45.310) GRANTS TO STATES NATIONAL ENDOWMENT OF THE HUMANITIES (ALN – 84.027) SPECIAL EDUCATION – GRANTS TO STATES (IDEA, PART B) – SPECIAL EDUCATION CLUSTER (IDEA) (ALN – 84.173) SPECIAL EDUCATION – PRESCHOOL GRANTS (IDEA PRESCHOOL) – SPECIAL EDUCATION CLUSTER (IDEA) (ALN – 84.425D) COVID-19 EDUCATION STABILIZATION FUND: ELEMENTARY AND SECONDARY SCHOOL EMERGENCY RELIEF FUND U.S. DEPARTMENT OF EDUCATION
AWARD NUMBER	LS246571OLS20 (04/01/2020 – 03/31/2022); LS246164OLS20 (10/01/2019 – 03/31/2022); LS00195419B (10/01/2018 – 03/31/2021); H027A180003 (07/01/2018 – 09/30/2019); H027A190003 (07/01/2019 – 09/30/2020); H173A180003 (07/01/2018 – 09/30/2019); H173A190003 (07/01/2019 – 09/30/2020); S425D200029 (06/16/2020 – 09/30/2021)
COMPLIANCE REQUIREMENT	EQUIPMENT AND REAL PROPERTY MANAGEMENT
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA OR SPECIFIC REQUIREMENT	2 CFR Section 200.313, establishes that procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements: (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years. (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated. (4) Adequate maintenance procedures must be developed to keep the property in good condition.
CONDITION	As part of our procedures on equipment requirements, we requested an inventory of equipment from the PRDE as of June 30, 2021. The inventory detail submitted does not present any disposition of assets, nor are there any assets identified that have been affected by the earthquakes that have occurred between December 2019 and January 2020, which damaged school structures. No inventory was taken since 2019. We selected a sample of ten (10) units for the IDEA Cluster, to determine that the items were properly safeguarded and the usage was in accordance with the regulations. We found the following deficiencies: 1. One (1) item (electronic board) was purchased and installed in a classroom that has been closed since the earthquakes that occurred between December 2019 and January 2020. The purchase of the item was made in February 2021. 2. One (1) item (stove) was purchased and installed in a classroom in December 2020 and has not been used because the classroom does not have a receptacle to plug the electric appliance.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2021-008 – continuation**

3. One (1) item (kitchen cabinet) was purchased in April 2021, and as of our test date (August 2022), the cabinet was on the classroom floor disassembled. It was noted that it has not been installed because the classroom has leaks that can damage the cabinet.

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

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

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

QUESTIONED COSTS None.

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

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

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

IDENTIFICATION AS A REPEAT FINDING This is a repeat finding (Finding Reference Number 2020-007).

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

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2021-008 – continuation

IEWS 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. PRDE expect to perform the physical inventory during the current fiscal year.

For instance related to IDEA Cluster program, DEPR will evaluate the instances mentioned and will make possible the relocation of the assets if necessary. It should be noted that in the case of the assets which were not installed, it was due to the fact that there were other pending infrastructure works outside the control of the property department. However, the assets were correctly identified and in secure locations.

For instance related to ESSER program, PRDE will review the transactions and transfers made to confirm that all assets are identified in the corresponding locations. PRDE also will evaluate and corrects assets not identified in the property system. It should be noted that the DEPR is working on new inventory-taking processes, this will benefit the DEPR's, and it will have better knowledge of the location and transfer of inventories made during the year.

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

FINDING REFERENCE NUMBER	2021-009
FEDERAL PROGRAM	(ALN – 45.310) GRANTS TO STATES NATIONAL ENDOWMENT OF THE HUMANITIES
AWARD NUMBER	LS-00-19-0054-19 (10/01/2018 – 09/30/2020)
COMPLIANCE REQUIREMENT	MATCHING, <u>LEVEL OF EFFORT</u>, EARMARKING
TYPE OF FINDING	NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY
CRITERIA OR SPECIFIC REQUIREMENT	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 three (3) fiscal years preceding that previous fiscal year.
CONDITION	During our audits test of the Maintenance of Effort reports, we noted that the aggregate expenditures for FY 2021 were \$18,093,007, the required expenditure to comply with the Maintenance of Effort for FY 2021 per the PRDE determination based on program requirements was \$18,580,076. Therefore, the PRDE did not reach the required expenditure level to comply with the requirement.
QUESTIONED COSTS	None.
CONTEXT	This is a repeated finding and represents a systematic problem per our evaluation.
CAUSE	Total expenditures of programs and funds related to library activities and program has experienced 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 Board has impacted the funds available for all public services funded by the government general fund, which includes the PRDE .
EFFECT	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.
IDENTIFICATION AS A REPEAT FINDING	This is a repeat finding (Finding Reference Number 2020-009).
RECOMMENDATION	We recommend that a formal finance and fiscal staff be assigned to the Grants to States program specifically. Evaluations of current expenditure levels should be made during the award period and if any positions related to library functions are vacated, fill those positions and evaluate any expenditures that could be included under the library programs state expenditures be so accounted for in order to reach the required program goals.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2021-009 – 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 2021. The basis of the request was that Commonwealth of Puerto Rico has gone through COVID aftermath as well as a precipitous and unforeseen decline in PRDE financial resources.

We received the waiver from the Institute of Museum and Library Services (IMLS) for the FY2020 in response to our request that SLAA failed to meet the Maintenance of Effort (MOE) requirement. The program will be in coordination with IMLS to establish a responsible action plan to attend this matter in a timely manner.

IMPLEMENTATION DATE Current Fiscal Year

RESPONSIBLE PERSON Héctor M. Reillo Cotto
Program Manager

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2021-010
FEDERAL PROGRAM	(ALN – 84.027) SPECIAL EDUCATION – GRANTS TO STATES (IDEA, PART B) – SPECIAL EDUCATION CLUSTER (IDEA) (ALN – 84.173) SPECIAL EDUCATION – PRESCHOOL GRANTS (IDEA PRESCHOOL) – SPECIAL EDUCATION CLUSTER (IDEA) U.S. DEPARTMENT OF EDUCATION
AWARD NUMBER	H027A180003 (07/01/2018 – 09/30/2019); H027A190003 (07/01/2019 – 09/30/2020); H173A180003 (07/01/2018 – 09/30/2019); H173A190003 (07/01/2019 – 09/30/2020).
COMPLIANCE REQUIREMENT	PROCUREMENT AND SUSPENSION AND DEBARMENT
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA OR SPECIFIC REQUIREMENT	2 CFR Section 200.317, establishes that when procuring property and services under a Federal award, a state must follow the same policies and procedures it uses for procurements from its non-Federal funds.
CONDITION	As part of our audit procedures on internal controls and compliance related to procurement of the IDEA Cluster program, we found the following deficiencies: <ol style="list-style-type: none"> 1. In the selected sample of disbursements of thirty-one (31) vouchers related to therapy and other related services, the PRDE did not provide evidence on the procurement process. The PRDE provided evaluations of the proposals submitted, but the proposal was not provided for our evaluation. In addition, from the evaluations submitted to bidders who were awarded the service, it was possible to observe comments and scores indicating that it did not meet the specifications. 2. In the interviews conducted for the procurement process for therapy services and other related services, we found that, although an adequate procurement process is performed and scores are awarded in the evaluations, providers that did not meet the required minimum score are allowed to hold a meeting and be able to resubmit the proposal. This process is determined by the Director of Monitoring of Evaluations and Related Services, however, the "Guide for the selection of professional services that are paid for with Federal funds" establishes that the determination to request a "best and final" offer must be requested by the Evaluation Committee. 3. The PRDE maintains different procurement processes, according to the services or goods to be acquired. Specifically, for the proposals for therapy services and related services, they worked under the MIPE program, and this process is not contemplated in the procedure manuals or guidelines that the PRDE has. 4. We select seventeen (17) disbursements for which it applied contribution process. We found the following deficiencies: (a) In an experience it was indicated that three (3) quotes had been evaluated, but only one provided us; (b) In two disbursements, no evidence of "no bid" was found by the proponents who did not quote; (c) In an instance there was a proponent with less cost and faster delivery, and the awarding reason to the other proponent was not documented; (d) In two (2) disbursements, the requested brand and model was established; (e) In an instance they did not present evidence of the quotation process, only that the service was required by a Special Education official. 5. No evidence was provided regarding the process to comply with suspension and debarment.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2021-010 – continuation
QUESTIONED COSTS	None.
CONTEXT	This is a systemic deficiency.
CAUSE	The PRDE maintains several areas to carry out the procurement processes, and they are not necessarily governed by the current regulations of the PRDE .
EFFECT	PRDE's procurement processes do not provide transparency and fairness when conducting and awarding procurement. These deficiencies do not meet the federal requirements to provide control mechanisms to avoid waste, fraud and abuse in the administration of Federal funds.
IDENTIFICATION AS A REPEAT FINDING	This is a repeat finding (Finding Reference Number 2020-010).
RECOMMENDATION	We recommend that the PRDE establish updated regulations that address the different realities of the PRDE . In addition, we recommend that recurring purchases can be projected to maximize procurement processes, and avoid splitting purchases, which are more expensive for the PRDE .
VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION	<p><u>Management Response for Finding 2021-010 – Conditions 1 and 5</u></p> <p>PRDE properly performed the procurement process for the (31) disbursement selected. However, PRDE 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><u>Management Response for Finding 2021-010 – Condition 2</u></p> <p>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.</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 contracted, have executed the services with the same or greater performance.</p> <p><u>Management Response for Finding 2021-010 – Condition 3</u></p> <p>Management does not agree with the statement. The program maintains a guide for contracting therapy services and related services in accordance with PRDE guidelines. These guides are governed by state and federal regulations on the process and the required documents that must be requested during the contracting of services and the purchase of equipment or materials. This contracting process is carried out within the MIPE platform to facilitate the process within the program and better management of documentation. The last revision to the guide was made on June 24, 2021 and recent regulatory changes were included and shared with all program staff.</p>

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2021-010 – continuation

Management Response for Finding 2021-010 – Condition 4

The PRDE will be reviewing, together with the purchasing department, the guidelines of the procedures in the process of purchasing materials and equipment in order to improve any deficiency or improve the established controls. In relation to the deficiencies, the purchasing department will evaluate the processes carried out, review the documents delivered and validate that all the documents are in accordance with the PRDE guidelines. Any correction to the information or document not delivered will be collected and will be available for observation by the auditors.

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

FINDING REFERENCE NUMBER	2021-011
FEDERAL PROGRAM	(ALN – 10.555) NATIONAL SCHOOL LUNCH PROGRAM (NSLP) – CHILD NUTRITION CLUSTER (ALN – 10.559) SUMMER FOOD SERVICE PROGRAM FOR CHILDREN (SUMMER FOOD SERVICE PROGRAM) (SFSP) – CHILD NUTRITION CLUSTER U.S. DEPARTMENT OF AGRICULTURE
AWARD NUMBER	202020N109941 (07/20/2019 – 06/30/2021); 201919N109941 (07/20/2018 – 06/30/2020)
COMPLIANCE REQUIREMENT	PROCUREMENT AND SUSPENSION AND DEBARMENT
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA OR SPECIFIC REQUIREMENT	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.
CONDITION	As part of our audit procedures, we selected a sample of twelve (12) subrecipients files to test internal controls and compliance with the Suspension and Debarment requirement. We review the proposals, contracts and related awards documents kept by the PRDE for each subrecipient on its file. As a result of our tests, we noted that there was no information included on the file related to the SAM verification regarding the suspension and debarment of the subrecipient. Also, there was not on file any certification from the subrecipient regarding the requirement and the contracts (Program Agreements) did not include any contract clause regarding the requirement of the subrecipients and its management to not be suspended or debar as required by the Federal regulations.
QUESTIONED COSTS	None.
CONTEXT	A sample of twelve (12) 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.
CAUSE	The program management was not aware of the compliance requirement as it applies to the programs of the cluster. Corrective actions were implemented by the program management stating in fiscal year 2021-2022.
EFFECT	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 result in questioned costs or loss of Federal funds.
IDENTIFICATION AS A REPEAT FINDING	This is a repeat finding (Finding Reference Number 2020-011).

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2021-011 – continuation

RECOMMENDATION

We recommend that the PRDE establish a formal procedures to verify each subrecipient status on SAM prior to evaluation of 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 partially agrees with the findings. We agree on the issue with the SAM but disagree with the Suspension and debarment clause. Since August 8, 2021, the agency has taken administrative measures and assigned the personnel to accomplish this compliance requirements, the NSLP and SFSP, regarding Debarment and Suspension. As a result of a 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 which the Sponsor or contractor would certify 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 (it's included in the new agreements). Verify the sponsor or contractor in the SAM site at GSA.

The SFSP and NSLP notified their sponsors of this new policy, and the clause was included in the Agreement's, and the process of signature. As of August 2022, the SFSP already signed and filed the new agreements of all 14 sponsors, that included the clause of suspension and debarment. As of August 2022, the NSLP already signed and filed the new agreements of all 39 sponsors, that included the clause of suspension and debarment.

Regarding the SAM number. In the past the SFSP and NSLP application included a section where sponsors provided the Dun & Bradstreet's Data Universal Numbering System (DUNS). Since April 4, 2022, the federal government completed the transition to the new UEI that is issued within the System for Award Management (SAM).

With this new policy, the AESAN plans to notify all the sponsors within the next 30 days. The notification will include:

- 1-SAM will be requirement to participate in the AESAN programs.
- 2-A link on where to access the SAM request.
- 3-A brief explanation on how to request the SAM

Addressing the e application and evaluation process of the finding, the SAM will part of the Evaluation File, that the AESAN has for each sponsor. The file evaluation process, is assigned in 3 different persons steps:

- 1- The program assistant collects the documents and uploads them to the shareholder.
- 2- The program coordinator evaluates the file. If the coordinator approves it; the file is sent to the legal advisor for review.
- 3- The legal advisor makes a final review, and recommends the agreement signature, or the file is sent back to first step with recommendations

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2021-011 – continuation

IMPLEMENTATION DATE October 15, 2022

RESPONSIBLE PERSON Lourdes García Santiago
AESAN Director

 Carmen Vega
 SFSP Coordinator

 Miliana Rivera
 NSLP Coordinator

 Jezer Mulero
 Legal Advisor

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2021-012																									
FEDERAL PROGRAM	(ALN – 10.555) NATIONAL SCHOOL LUNCH PROGRAM (NSLP) – CHILD NUTRITION CLUSTER (ALN – 10.559) SUMMER FOOD SERVICE PROGRAM FOR CHILDREN (SUMMER FOOD SERVICE PROGRAM) (SFSP) – CHILD NUTRITION CLUSTER (ALN – 10.579) CHILD NUTRITION DISCRETIONARY GRANTS LIMITED AVAILABILITY – CHILD NUTRITION CLUSTER (ALN – 10.582) FRESH AND FRUIT VEGETABLES PROGRAM U.S. DEPARTMENT OF AGRICULTURE																									
AWARD NUMBER	202020N109941 (07/20/2019 – 06/30/2021); 201919N109941 (07/20/2018 – 06/30/2020); 181PR300356SE_A (07/01/2018 – 06/30/2019); 191PR300356SE_A (07/01/2019 – 06/30/2020); 201PR310306 (07/01/2019 – 06/30/2020)																									
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 Assistance Listing Number (ALN) or other identifying number when the ALN 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". The transfers to other funds are not transfers to separate entities and therefore cannot be considered subrecipients for Federal program administration and presentation of the SEFA.																									
CONDITION	During our audit procedures of the Schedule of Expenditures of Federal Awards (SEFA) prepared by the PRDE , we noted that the SEFA includes incorrect amounts in the funds pass-through to subrecipients totals on SEFA. The SEFA include certain transfers from one operating unit of the PRDE to other operating units/office within the PRDE as funds pass-through to subrecipients. Differences noted are as follows:																									
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Programs</th> <th style="text-align: center;">Assistance Listing Number</th> <th style="text-align: center;">Amount Reported on SEFA</th> <th style="text-align: center;">Correct Amount for the SEFA</th> <th style="text-align: center;">Difference</th> </tr> </thead> <tbody> <tr> <td>Child Nutrition Cluster – National School Lunch Program</td> <td style="text-align: center;">10.555</td> <td style="text-align: right;">\$ 5,103,214</td> <td style="text-align: right;">\$ 1,268,261</td> <td style="text-align: right;">\$ 3,834,953</td> </tr> <tr> <td>Child Nutrition Cluster – Summer Food Service Program for Children</td> <td style="text-align: center;">10.559</td> <td style="text-align: right;">47,054,994</td> <td style="text-align: right;">15,996,494</td> <td style="text-align: right;">31,058,500</td> </tr> <tr> <td>Child Nutrition Discretionary Grants Limited Availability</td> <td style="text-align: center;">10.579</td> <td style="text-align: right;">320,813</td> <td style="text-align: right;">244,998</td> <td style="text-align: right;">75,815</td> </tr> <tr> <td>Fresh and Fruit Vegetables Program</td> <td style="text-align: center;">10.582</td> <td style="text-align: right;">36,909</td> <td style="text-align: right;">3,032</td> <td style="text-align: right;">33,877</td> </tr> </tbody> </table>	Programs	Assistance Listing Number	Amount Reported on SEFA	Correct Amount for the SEFA	Difference	Child Nutrition Cluster – National School Lunch Program	10.555	\$ 5,103,214	\$ 1,268,261	\$ 3,834,953	Child Nutrition Cluster – Summer Food Service Program for Children	10.559	47,054,994	15,996,494	31,058,500	Child Nutrition Discretionary Grants Limited Availability	10.579	320,813	244,998	75,815	Fresh and Fruit Vegetables Program	10.582	36,909	3,032	33,877
Programs	Assistance Listing Number	Amount Reported on SEFA	Correct Amount for the SEFA	Difference																						
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Fresh and Fruit Vegetables Program	10.582	36,909	3,032	33,877																						
QUESTIONED COSTS	None.																									
CONTEXT	This deficiency is a systemic problem.																									

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2021-012 – continuation
CAUSE	The PRDE includes on the SEFA amounts of funds Federal funds transfer from one operating office of the PRDE to another office within the PRDE. In particular, the PRDE considers the amount of funds transfer from various programs administered by the Agencia Estatal de Servicios de Alimentos y Nutrición fund to the Autoridad Escolar de Alimentos (Comedores = School Food Authority) fund as amounts pass-through to subrecipients and includes the amounts on the SEFA. The AEA is not a separate legal entity from the PRDE, it is and operational office within the PRDE. Transfers within office in the same organization cannot be considered payments to subrecipients for the presentation of the SEFA.
EFFECT	The PRDE is not in compliance with the SEFA preparation requirements prescribed by the Uniform Guidance.
IDENTIFICATION AS A REPEAT FINDING	This is a repeat finding (Finding Reference Number 2020-013).
RECOMMENDATION	The PRDE must revise the SEFA preparation process to include the correct amounts pass-through to subrecipients that meet the criteria of being separate legal entities and not fund or offices within the PRDE.
VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION	<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. 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>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>
IMPLEMENTATION DATE	Current Fiscal Year
RESPONSIBLE PERSON	Evelyn Rodríguez Cardé Finance Director

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2021-013 (ALN – 84.010) TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES (TITLE I, PART A OF THE ESEA) U.S. DEPARTMENT OF EDUCATION
AWARD NUMBER	S010A180052 (07/01/2018 – 09/30/2019)
COMPLIANCE REQUIREMENT	SPECIAL TEST AND PROVISIONS – ANNUAL REPORT CARD, HIGH SCHOOL GRADUATION RATE
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA OR SPECIFIC REQUIREMENT	34 CFR Section 200.2 (b)(5)(i) establishes that the assessments required under this Section must be supported by evidence that the assessments are of adequate technical quality: (a) for each purpose required under the Act, and (b) consistent with the requirements of this Section.
CONDITION	As part of our audit procedures over internal controls and compliance for the special tests and provisions of the Annual Report Card, High School Graduation Rate requirement, we selected a sample of twenty-five (25) students. In fifteen (15) instances, we didn't receive the required information to validate that the PRDE are maintaining appropriate documentation to confirm when students have been removed from the adjusted cohort.
QUESTIONED COSTS	None.
CONTEXT	This deficiency is a systemic problem that is related to lack of internal controls.
CAUSE	The PRDE failed to provide the evidence to verify if the program implemented the appropriate policies and procedures for documenting the removal of a student from the adjusted cohort.
EFFECT	The PRDE may have included a student in the graduation rate who did not meet the compliance requirements, leading to an erroneous calculation of the Annual Report Card, High School Graduation Rate.
IDENTIFICATION AS A REPEAT FINDING	Not previously reported.
RECOMMENDATION	We recommend that the PRDE strengthen its internal controls procedures in order to provide the adequate evidence to ascertain that the procedures are performed as required.
VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION	PRDE properly maintain the appropriate documentation for all students. Also, during the period 2020-2021 the PRDE performed on-site monitoring in which they validate all information required in the Annual Report Cards of a random selected students. However, the documentation was kept in the schools' facilities 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.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2021-013 – continuation

IMPLEMENTATION DATE Current Fiscal Year

RESPONSIBLE PERSON Naitzabes Martínez González
 Auxiliary Secretary for Federal Affairs

 Lydiana López
 Central Level Planning Office Director

 María Galindo
 Title I Program Coordinator

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2021-014
FEDERAL PROGRAM	(ALN – 84.007) FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS (FSEOG) – STUDENT FINANCIAL ASSISTANCE PROGRAMS CLUSTER (ALN – 84.033) FEDERAL WORK-STUDY PROGRAM (FWS) – STUDENT FINANCIAL ASSISTANCE PROGRAMS CLUSTER (ALN – 84.063) FEDERAL PELL GRANT PROGRAM (PELL) – STUDENT FINANCIAL ASSISTANCE PROGRAMS CLUSTER U.S. DEPARTMENT OF EDUCATION
AWARD NUMBER	PPA OPE ID: 02241900 (03/19/2019 – 12/31/2021)
COMPLIANCE REQUIREMENT	SPECIAL TEST AND PROVISIONS – DISBURSEMENT TO OR ON BEHALF OF STUDENTS
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA OR SPECIFIC REQUIREMENT	34 CFR Section 668.164(h) (2) 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.
CONDITION	As part of our audit procedures and from a population of 1,100 students, we selected a sample of sixty-five (65) Pell Award participants and their disbursements for a semester selected during the fiscal year 2020-2021. During the performance of the special test and provision disbursement to or on behalf of student requirement, we examined evidence of payments disbursed to student. While reviewing the disbursements evidence, we noted the following: <ol style="list-style-type: none"> 1. For fourteen (14) students, we noted that PRDE issue PELL payments for a total amount of \$26,208 after 14 days of the occurrence of the credit balance on the student account. 2. For twenty (20) students, we noted that PRDE issue SEOG payments for a total amount of \$5,550 after 14 days of the occurrence of the credit balance on the student account. 3. For seventeen (17) students, we noted that PRDE issue FWS payments for a total amount of \$4,705 after 14 days of the occurrence of the credit balance on the student account.
QUESTIONED COSTS	None.
CONTEXT	During the special test and provision disbursement to or on behalf of student requirement, we compared the Pell, SEOG and FWS student credited balance date stated in the Orbundis System, with the student disbursement amount issued in the SIFDE (PRDE Accounting System), and there was more than 14 days of the occurrence of the credit balance on the student account.
CAUSE	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.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2021-014 – continuation
EFFECT	<p>Provisional Certification:</p> <p>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.</p> <p>Reasons and Special Conditions of Provisional Certification – Deficiencies in Administrative Capability</p> <p>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.</p> <p>(Refer to PPA. OPE ID: 02241900, Provisional Certification)</p>
IDENTIFICATION AS A REPEAT FINDING	This is a repeated finding and represents a systematic problem per our evaluation. (Finding Reference Number 2020-014).
RECOMMENDATION	We recommend to Management establish an aggressive review and formal monitoring of the internal controls established for the PELL, SEOG and FWS payments issuance on time.
VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION	PRDE management accepts the auditor's findings and recommendations for the PELL and FSEOG payments of the fourteen (14) days of the occurrence to the credit balances. PRDE does not accept the FWS findings because the funds for this program were transferred thru FSEOG according to the waiver due to the pandemic. It must also be pointed out that these payments are sent to the students using direct deposit and it was found that due to the pandemic some students closed their accounts and PRDE was unable to send the funds on a timely basis. Currently all the payments have been sent to the referenced students.
IMPLEMENTATION DATE	Current Fiscal Year
RESPONSIBLE PERSON	Ivette Rodríguez Auxiliary Director of Technical Education Division

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2021-015
FEDERAL PROGRAM	(ALN – 84.007) FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS (FSEOG) – STUDENT FINANCIAL ASSISTANCE PROGRAMS CLUSTER (ALN – 84.033) FEDERAL WORK-STUDY PROGRAM (FWS) – STUDENT FINANCIAL ASSISTANCE PROGRAMS CLUSTER (ALN – 84.063) FEDERAL PELL GRANT PROGRAM (PELL) – STUDENT FINANCIAL ASSISTANCE PROGRAMS CLUSTER U.S. DEPARTMENT OF EDUCATION
AWARD NUMBER	PPA OPE ID: 02241900 (03/19/2019 – 12/31/2021)
COMPLIANCE REQUIREMENT	SPECIAL TEST AND PROVISIONS – ENROLLMENT REPORTING
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA OR SPECIFIC REQUIREMENT	According to the OMB No. 1845-0035 the Institutions are required to report enrollment information under the Pell Grant and the Direct and FFEL loan programs via the NSLDS, although FFEL loans are no longer made or a part of the SFA Cluster, a student may have a FFEL loan from previous years that would require enrollment reporting for that student (Pell, 34 CFR 690.83(b)(2); FFEL, 34 CFR 682.610; Direct Loan, 34 CFR 685.309). The administration of the Title IV programs depends heavily on the accuracy and timeliness of the enrollment information reported by institutions. Institutions must review, update, and verify student enrollment statuses, program information, and effective dates that appear on the Enrollment Reporting Roster file or on the Enrollment Maintenance page of the NSLDS Professional Access – National Student Loan Data System for Financial Aid Professionals (NSLDSFAP).
CONDITION	As part of our audit procedures we requested to the PRDE a Pell students list from the institution's records that had a reduction or increase in attendance levels, graduated, withdrew, dropped out, or enrolled but never attended during the audit period. From this student list, we would select a sample of students in order to compare the data in the student's NSLDS Enrollment Detail to the students' academic files and other institutional records to verify that the institution is accurately reporting the significant Campus-Level and Program-Level enrollment data elements that ED considers high risk. After we continuously maintained a follow-up of this request, the PRDE did not provided the student list on time for us be able to perform our audit procedures for compliance purpose.
QUESTIONED COSTS	None.
CONTEXT	By the end of July 2022, we requested to the PRDE to provide to us the information related to the Pell Award students list from the institution's records that had a reduction or increase in attendance levels, graduated, withdrew, dropped out, or enrolled but never attended during the audit period. After we maintained a continuously follow-up of this requisition during the audit, we received the student list missing important required information by mid-September 2022, not allowing sufficient time for us to be able to perform our audit procedures for compliance purpose.
CAUSE	The PRDE failed to gather the information related to the Pell Award students list from the institution's records that had a reduction or increase in attendance levels, graduated, withdrew, dropped out, or enrolled but never attended during the audit period, on a timely manner to us be able to perform our audit procedures for compliance purposes.
EFFECT	The Student would receive less amount from the Pell Award than they have the right to receive, resulting in less financial assistance for its postsecondary education.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2021-015 – continuation**

In addition, this would affect the following:

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 **PRDE** to participate in the Title IV, HEA programs referenced in this agreement. During the period of provisional certification, the participation of the **PRDE** 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 **PRDE'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 **PRDE'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 **PRDE** 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)

IDENTIFICATION AS A REPEAT FINDING

This is not a repeated finding.

RECOMMENDATION

We recommend **PRDE's** management to assign a person to comply with responsibility to gather the information and maintain the Pell Award students list from the institution's records that had a reduction or increase in attendance levels, graduated, withdrew, dropped out, or enrolled but never attended during the audit period.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

PRDE management agrees with the auditor's finding and recommendations, however, as per the audit an incomplete report was initially submitted and when the corrected report was handed in it was past the audit deadline. It must also be pointed out that PRDE is instituting the Orbund SIS system to address this issue and will also be assigning an employee to be trained and assigned to enrollment reporting.

IMPLEMENTATION DATE

Current Fiscal Year

RESPONSIBLE PERSON

Ivette Rodríguez
 Auxiliary Director of Technical Education Division

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2021-016
FEDERAL PROGRAM	(ALN – 84.007) FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS (FSEOG) – STUDENT FINANCIAL ASSISTANCE PROGRAMS CLUSTER (ALN – 84.033) FEDERAL WORK-STUDY PROGRAM (FWS) – STUDENT FINANCIAL ASSISTANCE PROGRAMS CLUSTER (ALN – 84.063) FEDERAL PELL GRANT PROGRAM (PELL) – STUDENT FINANCIAL ASSISTANCE PROGRAMS CLUSTER U.S. DEPARTMENT OF EDUCATION
AWARD NUMBER	PPA OPE ID: 02241900 (03/19/2019 – 12/31/2021)
COMPLIANCE REQUIREMENT	SPECIAL TEST AND PROVISIONS – RETURN OF TITLE IV FUNDS
TYPE OF FINDING	NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY
CRITERIA OR SPECIFIC REQUIREMENT	<p>34 CFR Section 668.22 states the following:</p> <p>(e) Calculation of the amount of Title IV assistance earned by the student –</p> <p>(1) General. The amount of Title IV grant or loan assistance that is earned by the student is calculated by –</p> <ul style="list-style-type: none">(i) Determining the percentage of Title IV grant or loan assistance that has been earned by the student, as described in paragraph (e)(2) of this section; and(ii) Applying this percentage to the total amount of Title IV grant or loan assistance that was disbursed (and that could have been disbursed, as defined in paragraph (l)(1) of this section) to the student, or on the student's behalf, for the payment period or period of enrollment as of the student's withdrawal date. <p>(2) Percentage earned. The percentage of Title IV grant or loan assistance that has been earned by the student is –</p> <ul style="list-style-type: none">(i) Equal to the percentage of the payment period or period of enrollment that the student completed (as determined in accordance with paragraph (f) of this section) as of the student's withdrawal date. <p>(f) Percentage of payment period or period of enrollment completed.</p> <p>(1) For purposes of paragraph (e)(2)(i) of this section, the percentage of the payment period or period of enrollment completed is determined –</p> <ul style="list-style-type: none">(i) In the case of a program that is measured in credit hours, by dividing the total number of calendar days in the payment period or period of enrollment into the number of calendar days completed in that period as of the student's withdrawal date; and <p>(2)</p> <ul style="list-style-type: none">(i) The total number of calendar days in a payment period or period of enrollment includes all days within the period that the student was scheduled to complete, except that scheduled breaks of at least five consecutive days are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in that period.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2021-016 – continuation

- (ii) The total number of calendar days in a payment period or period of enrollment does not include –
 - (A) Days in which the student was on an approved leave of absence; or
 - (B) For a payment period or period of enrollment in which any courses in the program are offered in modules, any scheduled breaks of at least five consecutive days when the student is not scheduled to attend a module or other course offered during that period of time.

CONDITION

As part of our audit procedures and from a population of seventy-two (72) students who received Title IV assistance and withdrew, dropped out, or never began attendance during the audit period, we selected a sample of seven (7) students to review the return of Title IV funds determinations/calculations to determine conformity with Title IV requirements.

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

QUESTIONED COSTS

None.

CONTEXT

For the condition stated in which PRDE incorrectly calculated the percentage earned for the period of enrollment completed for (1) student we presented the following information to provide proper perspective:

The student was enrolled in the 2nd semester January to May 2021. The period of enrollment starting date was on 1/14/2021 thru 5/14/2021, for a total of calendar days of 121. The student withdrew on 3/15/2021 and the enrollment completed of calendar days was 61 days. The PRDE incorrectly calculated a total of calendar days of 131, instead of 121 days, resulting in an incorrect calculation of the Percentage of Title IV Aid Earned of 46.5%. The correct percentage calculation should be 50.4%, by dividing the enrollment completion period of 61 days by the total of calendar days for the period of enrollment of 121 days.

This recalculation resulted in the Pell Award amount increase for a total amount of \$1,598.94 from \$1,475.21 and compared with the initial Enrollment Cost Payable balance of \$1,610, the new remaining student debt balance is \$11.06 and not \$134.79. Because the student had paid the amount of \$134.79, the PRDE will have to reimburse to the student \$123.73.

CAUSE

The PRDE failed to appropriate review the form R2T4 Treatment of Title IV Funds When a Student Withdraws from a Credit-Hour Program which had an error in the calculation of the percentage earned for the period of enrollment completed and was not detected by the PRDE personnel.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2021-016 – continuation
EFFECT	<p>The Student would receive less amount from the Pell Award than they have the right to receive, resulting in less financial assistance for its postsecondary education.</p> <p>In addition, this would affect the following:</p> <p>Provisional Certification:</p> <p>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 PRDE will be subject to revocation for cause.</p> <p>Reasons and Special Conditions of Provisional Certification – Deficiencies in Administrative Capability</p> <p>Recent audits and/or a recent program review of the PRDE'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 PRDE'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 PRDE is able to demonstrate that its level of administrative capability is commensurate with the standards established in the referenced regulation.</p> <p>(Refer to PPA. OPE ID: 02241900, Provisional Certification)</p>
IDENTIFICATION AS A REPEAT FINDING	This is not a repeated finding.
RECOMMENDATION	We recommend PRDE's management to establish adequate internal control procedures to reviews the recalculation of the Pell award amount determined by the personnel assigned for this purpose, before the PRDE would issue the Pell award disbursement. Also we recommend that adequate training is provided to the employees that perform this procedure and monitor the compliance with it.
VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION	PRDE management agrees with the auditor's finding and recommendations. This was an isolated case because an incorrect academic calendar was used to calculate the awarded amount. PRDE is coordinating with Mr. Eric Santiago, FSA-MSURD of the Department of Education for R2T4 training of all personnel that will be working with this program. PRDE is also instituting internal audits during the school year to prevent this issue.
IMPLEMENTATION DATE	Current Fiscal Year
RESPONSIBLE PERSON	Ivette Rodríguez Auxiliary Director of Technical Education Division

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2021-017
FEDERAL PROGRAM	(ALN – 84.287) TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS U.S. DEPARTMENT OF EDUCATION
AWARD NUMBER	S287C170039 (07/01/2017 – 09/30/2021), S287C180039 (07/01/2018 – 09/30/2021); S287C190039 (07/01/2019 – 09/30/2021).
COMPLIANCE REQUIREMENT	SUBRECIPIENT MONITORING
TYPE OF FINDING	NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY
CRITERIA OR SPECIFIC REQUIREMENT	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. The program staff documents on a worksheet the revision of the report received from the subrecipient indicating if the reports comply with the audit requirements, summarizes any findings and other information related to the reviewed report.
CONDITION	As part of our audit procedures, we obtained the list of subrecipients active during the fiscal year 2020-2021, monitoring visit schedules and disbursements made. We selected a sample of four (4) subrecipients to test compliance with internal control policies and compliance with the subrecipient monitoring requirement. We noted the following deficiencies during our tests: <ol style="list-style-type: none"> 1. For two (2) subrecipients, we did not find any evidence of the receipt of the Single Audit Report, Program Specific audit or the required financial statements and special agreed-upon procedure report. Also, we review the Federal Audit Clearinghouse, but no information was found for this subrecipient. 2. For one (1) subrecipient, we could only find on the file a copy of the audited financial statements. In accordance with the PRDE program manual and award contract, the entity was required to submit the special agreed-upon procedure report but it was not submitted. 3. For one (1) subrecipient, the PRDE program staff incorrectly identify the report received as Single Audit report when in fact the subrecipient only submitted the audited financial statements and a Yellow Book Report. There wasn't a Schedule of Expenditures of Federal Awards included on the documents received from the subrecipient, nor was there any of the reports required by the Uniform Guidance from the auditor. Based on the PRDE staff determination and the information included on the financial statements, the subrecipient should have submitted a Single Audit Report or if the program was the only source of Federal expenditures, a Program Specific Audit Report. However, the PRDE staff failed to correctly identify the reports received and no further actions were taken to receive the correct reporting from the subrecipient.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2021-017 – continuation
	4. For two (2) subrecipients (which includes the subrecipient included on item number 3 above), the review worksheet of the report received from the subrecipient did not include the basic information to determine if the internal control procedures have been followed. The worksheet did not include the following: person that reviews the report, date of the review, date the report was filed on the FAC, failed to adequately identify the report received as a Single Audit when that was not applicable
QUESTIONED COSTS	None.
CONTEXT	A sample of four (4) entities was selected for test purposes out of a total subrecipient list of seventeen (17) entities that received program funds.
CAUSE	The program staff has not received adequate training on the proper identification of the required reports from subrecipients regarding this compliance requirement. The process of the reports receipt, review and follow-up has not been followed in order to comply with the established procedures.
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.
IDENTIFICATION AS A REPEAT FINDING	This is a repeat finding (Finding Reference Number 2020-015).
RECOMMENDATION	We recommend that adequate training be provided to the program staff in charge of the report review functions of the program in order to comply with correct evaluation of the audit reports that the subrecipients must submit and be evaluated to comply with this audit or special report requirement established to the program subrecipients. Also, the current procedures for the receipt, review and follow up with subrecipients must be revised in order to provide reasonable assurance that the subrecipient monitoring requirement related to the evaluation of the Single Audits reports is in place and operating to comply with this requirement.
VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION	<p>PRDE recognize that for the first two conditions, the program received the financial statement and did an evaluation of the fund used during the periods, the single audit was not required since federal funds did not exceed the required threshold. As a corrective action plan, the program will prepare the corresponding worksheet evaluation of 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 and fourth the program will correct the evaluation worksheet that includes the person that review, date of the review and any follow-up requires to the specific reports.</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>

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2021-017 – continuation

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.

IMPLEMENTATION DATE Current Fiscal Year

RESPONSIBLE PERSON Naitzabes Martínez González
Auxiliary Secretary for Federal Affairs

Luis Oppenheimer
21st Program Coordinator

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2021-018
FEDERAL PROGRAM	(ALN – 10.558) CHILD AND ADULT CARE FOOD PROGRAM (CACFP) U.S. DEPARTMENT OF AGRICULTURE
AWARD NUMBER	202020N109941 (07/20/2019 – 06/30/2021), 201919N109941 (07/20/2018 – 06/30/2020)
COMPLIANCE REQUIREMENT	SUBRECIPIENT MONITORING
TYPE OF FINDING	NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY
CRITERIA OR SPECIFIC REQUIREMENT	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. The procedure requires that on a monthly basis the programs accountant verify the FAC to identify the reports submitted by the subrecipients in order to start the report review and finding resolution process.
CONDITION	As part of our audit procedures, we obtained a copy of the worksheet for the Single Audit follow-up ("Hoja de Trabajo de Seguimiento de la Auditoría Unica") for the year 2020-2021. We noted the following deficiencies on the worksheet from a sample of ten (10) subrecipients audit reports evaluations tested: <ol style="list-style-type: none"> 1. For one (1) subrecipient, Single Audit Report for the year ended 6/30/2020 was received at FAC on 3/28/2022; the SAR was submitted to the FAC six months after the due date (as allowed by Covid related time extensions). We requested from the program management any communications, emails, or letters sent to the subrecipient requesting the filling on the report after the due had passed. No evidence was provided that there was a request or follow-up with the subrecipient to assure compliance with the SAR submission requirement. 2. We noted significant delays on the issuance of the management decision ("Decisión Administrativa") of seven (7) evaluations of Single Audit Reports. The dates of the management decisions were issued within February 15, 2022 and February 28, 2022. The issuance of the management decisions represents a delay of over nine (9) months for five subrecipient reports received between March 2021 and June 2021; and a delay of four (4) months for two reports received on October 2021. 3. For three (3) subrecipients, on the worksheet indicated that the date of review of the Single Audit Reports review was done on February 15, 2021; however, the audit reports were submitted at the FAC on 4/29/2021, 6/28/2021 and 3/31/2021, respectively, therefore the date included on the control worksheet were incorrectly entered.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2021-018 – continuation**

4. One (1) subrecipient selected for test purposes was not included on the worksheet. We reviewed the information for subrecipient on the FAC and noted that the reports were received at the FAC on 3/30/2021. However, the subrecipient was not included on the control worksheet and the SAR was not evaluated on a timely basis.

QUESTIONED COSTS None.

CONTEXT A sample of ten (10) entities was selected for test purposes out of a total subrecipient list of one hundred thirteen (113) entities that received program funds.

CAUSE 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. The information included on the control worksheet does not provide reasonable assurance the program personnel is reviewing the Single Audit Reports on a monthly basis as established on the program's procedures. It does appear that all subrecipient information and management decisions are issued on a single month with significant delay when compared to the date of receipt of the Single Audit Reports. Also, there was no adequate review of the worksheet by supervisory personnel to determine if the information on the worksheet was complete and correct.

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.

IDENTIFICATION AS A REPEAT FINDING This is a repeat finding (Finding Reference Number 2020-017).

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

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION Alter analyzing and reviewing the previous reports, AESAN partially agrees with the finding. Regarding the "Procedimiento para el Informe de la Auditoría Única". These findings are repetitive and were previously observed as the Result of CACFP Management Evaluation 2021, made by USDA-FNS. During that Evaluation a new Process (See Attachment #1) was reviewed by AESAN personnel, and submitted to USDA-FNS for approval, as of February 2022. We believe that the auditors did not have the correct version of this document, for their review, to that regard we ask that the Attachment #1 is reviewed, because it complies with the finding requirements.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2021-018 – continuation

Later, on 15 March 2022, USDA-FNS, approved the new procedure and concluded the CACFP Management Evaluation, closing all the Findings (see Attachment #2). To that matter, we believed that the finding made the auditors regarding implementing new procedures are being address by the AESAN. Since the procedures are relatively new, it will take reasonable time for the operation and personnel to adjust.

It is very important to mention that within the past six months the AESAN Accounting section major changes that include:

The CFACP dedicated accountant quitted our agency.

1. The CFACP dedicated supporting accountant was out of contract par-time employee, with annual renewal of contract.
2. The AESAN Accounting Supervisor, ask for a transfer to another Department of Education Office.

This personnel issues, has impact the accounting section production due to obvious reasons. To attend this matter the AESAN has designated Odalis Menard, with the role of Supervise this section. AESAN has also published two (2) hiring opportunities, to fill the accounting section. This vacancies announcement will expire on 15 September 2022. Alter that date AESAN will began the process of interviewing and evaluating the candidates, that completed the Human Resources requirements. With these facts, we do accept the portion of the finding regarding supervision, monitoring and follow-up from the management section of the agency. We are committed to fix this matter, with the actions that were detailed before.

IMPLEMENTATION DATE

Immediately

RESPONSIBLE PERSON

Evelyn López
CACFP Coordinator

Odalis Menard
Executive Director / Accounting Supervisor

Lourdes García Santiago
AESAN Director

END OF SCHEDULE

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

Findings Related to the Federal Programs:

FISCAL YEAR 2020

Finding Number	2020-015	Noncompliance and Significant Deficiency – Subrecipient Monitoring 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.
Assistance Listing Number	84.287	Twenty-First Century Community Learning Centers
Questioned Cost	None	
Auditee Comments	As per Program Determination Letter (Audit Control Number 02-20-19329) dated January 4, 2022, received from the Office of Finance and Operations of the US Department of Education (Department), they accepted the PRDE's corrective actions and consider this finding resolved and closed.	

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

Findings Related to the Financial Statement:

FISCAL YEAR 2018

Finding Number	2018-001	Internal Control / Compliance – Allowable Costs/Costs Principles Management does not have effective controls to monitor payroll records once the payments are processed by the Puerto Rico Treasury Department and the reconciliation of PRDE with the amounts included in the Statement of Cash Receipts and Cash Disbursements.
Assistance Listing Numbers	84.027 84.173	Special Education – Grants to State (IDEA, Part B) Cluster Special Education – Preschool Grants (IDEA Preschool)
Questioned Cost	\$301,314	
Auditee Comments	As per Program Determination Letter (Audit Control Number 02-18-99454) dated July 14, 2022, received from the Office of Special Education and Rehabilitative Services of the US Department of Education (Department), they required the PRDE that within 90 days of that date, to submit evidence of the final evaluation analysis of employee retirement payments transactions, including any reconciliations, as described in the PRDE's April 26, 2021, e-mail. Based on the information submitted and they analysis of the same, the Department reserve the right to require additional corrective actions.	

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

FISCAL YEAR 2020

Finding Number	2020-001	Significant Deficiency Fail to include the correct balances of the result of operations from OMEP approved budget in the PRDE financial statement.
Auditee Comments	No final determination has been received from the Federal Awarding Agency.	

Findings Related to the Federal Programs:

FISCAL YEAR 2018

Finding Number	2018-002	Internal Control / Compliance – Allowable Costs/Costs Principles Duplicated payments issued during the year ended June 30, 2018..
Assistance Listing Number	84.027	Special Education – Grants to State (IDEA, Part B) Cluster
Questioned Cost	\$40,239	
Auditee Comments	As per Program Determination Letter (Audit Control Number 02-18-99454) dated July 14, 2022, received from the Office of Special Education and Rehabilitative Services of the US Department of Education (Department), they required the PRDE that within 90 days of that date, remit the total questioned costs to the Deputy Assistance Secretary, delegated the authority to perform the functions and duties of the Assistance Secretary of the Department.	

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

FISCAL YEAR 2019

Finding Number	2019-001	Internal Control / Compliance – Allowable Costs/Costs Principles Duplicated payments issued during the year ended June 30, 2018..
Assistance Listing Number	84.027	Special Education – Grants to State (IDEA, Part B) Cluster
Questioned Cost	\$60,631	

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

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

Finding Number **2019-002** **Internal Control / Compliance**
 Form 499R-4 missing on some employees' files and Medicare withholdings were not properly made.

Assistance Listing Numbers 84.027 Special Education – Grants to State
 84.367 Supporting Effective Instruction State Grants

Questioned Cost None

Auditee Comments Program Determination Letter for ALN 84.027: As per Program Determination Letter (Audit Control Number 02-19-19412) dated July 14, 2022, received from the Office of Special Education and Rehabilitative Services of the US Department of Education (Department), they expect the PRDE to work collaboratively with the TPFSA and apply procedures for properly charging salary costs to the Department programs.

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

Assistance Listing 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.

Assistance Listing Number 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

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.
Assistance Listing Numbers	10.555 10.559	National School Lunch Program Summer Food Service Program for Children
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.
Assistance Listing Number	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.
Assistance Listing Number	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.	

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

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.

Assistance Listing Number 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 **2019-018** **Reporting**
 No documentation was provided for our review two (2) forms SF-270 – Requests for Advance or Reimbursements requested.

Assistance Listing Number 97.036 Disaster Grants – Public Assistance

Questioned Cost None

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

FISCAL YEAR 2020

Finding Number **2020-002** **Significant Deficiency – Activities Allowed or Unallowed**
 Deficiencies in invoices, incorrect charges to Federal programs and missing information.

Assistance Listing Numbers 84.027 Special Education – Grants to State (IDEA, Part B) Cluster
 84.173 Special Education – Preschool Grants (IDEA Preschool)

Questioned Cost None

Auditee Comments As per Program Determination Letter (Audit Control Number 02-20-19329) dated October 18, 2022, received from the Office of Special Education and Rehabilitative Services of the US Department of Education (Department), they required the PRDE that within 90 days of the received of the PDL, must submit evidence to OSEP that demonstrates that PRDE maintains a system for processing expenses for allowable purposes in accordance with the OMB Uniform Guidance. Documentation should include a sample of invoices with corresponding AUPs, policies and procedures, and any additional guidance documents. PRDE has disseminated to personnel regarding the handling and processing of invoice.

Finding Number **2020-003** **Material Weakness – Activities Allowed or Unallowed // Eligibility**
 Deficiencies in determination and documentation of the cost of attendance.

Assistance Listing Numbers 84.007 Federal Supplemental Educational Opportunity Grants (FSEOG) (Student Assistance Cluster)
 84.033 Federal Work-Study Program (FWS)
 84.063 Federal Pell Grant Program (Pell)

Questioned Cost None

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

Auditee Comments	No final determination has been received from the Federal Awarding Agency.	
Finding Number	2020-004	Material Weakness – Allowable Costs/Costs Principles Deficiencies in payments to employees for hours not worked, and payroll charge to incorrect Federal programs.
Assistance Listing Numbers	84.010	Title I Grants to Local Educational Agencies Cluster
	84.027; 84.173	Special Education Cluster (IDEA)
	84.048	Career and Technical Education – Basis Grants to States
	84.287	Twenty-First Century Community Learning Centers
	84.365	English Language Acquisition State Grants
	84.367	Supporting Effective Instruction State Grants
	84.424	Student Support and Academic Enrichment Program
Questioned Cost	Undetermined	
Auditee Comments	<u>Program Determination Letter for ALNs 84.027 and 84.173:</u> As per Program Determination Letter (Audit Control Number 02-20-19329) dated October 18, 2022, received from the Office of Special Education and Rehabilitative Services of the US Department of Education (Department), they required the PRDE that within 90 days of the received of the PDL, must submit evidence to OSEP that demonstrates internal controls are currently in place to identify any incorrect payroll payment in real time or sooner and mitigate errors in processing payroll activities. Specifically, PRDE must submit to OSEP: 1) a copy of the guidelines regarding its procedures for conducting a biweekly salary adjustment as described in its April 20, 2022, response to OSEP; and 2) documentation demonstrating adjustments were made in cases where the employee was improperly paid \$1,142 for leave that the employee did not have available, and \$623.53 for the employee who was on a leave without pay status as described in the auditors' finding.	
Finding Number	2020-005	Material Noncompliance and Material Weakness – Allowable Costs/Costs Principles Deficiencies in payments to employees for hours not worked, and payroll charge to incorrect Federal programs.
Assistance Listing Numbers	84.010	Title I Grants to Local Educational Agencies Cluster
	84.027	Special Education – Grants to State (IDEA, Part B)
	84.048	Career and Technical Education – Basis Grants to States
	84.367	Supporting Effective Instruction State Grants
Questioned Cost	Identified questioned costs are \$96,948, for which were identified as employees that did not work for the Federal program. Other amount may be unallowed, if the PRDE can identify the portion of Federal funding incurred in Schoolwide, Consolidated and from prior years.	
Auditee Comments	<u>Program Determination Letter for ALN 84.027:</u> As per Program Determination Letter (Audit Control Number 02-20-19329) dated October 18, 2022, received from the Office of Special Education and Rehabilitative Services of the US Department of Education (Department), they required the PRDE that within 90 days of the received of the PDL, must remit a total of \$63,542 to the Department representing the amounts of duplicate payments to contractors and employees during the FFY 2020 grant award period.	

continue

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

Finding Number	2020-006	Material Noncompliance and Material Weakness – Eligibility Program funds were disbursed to subrecipient without a contract/agreement.
Assistance Listing Numbers	10.555 10.559	National School Lunch Program (NSLP) – Child Nutrition Cluster Summer Food Service Program for Children (Summer Food Service Program) (SFSP)
Questioned Cost	None	
Auditee Comments	No final determination has been received from the Federal Awarding Agency.	
Finding Number	2020-007	Significant Deficiency – Equipment and Real Property Management Noncompliance with Federal regulation related to the maintenance of records of equipment acquired with Federal funds.
Assistance Listing Numbers	84.027 84.173	Special Education – Grants to State (IDEA, Part B) Cluster Special Education – Preschool Grants (IDEA Preschool)
Questioned Cost	Undetermined.	
Auditee Comments	As per Program Determination Letter (Audit Control Number 02-20-19329) dated October 18, 2022, received from the Office of Special Education and Rehabilitative Services of the US Department of Education (Department), they required the PRDE that within 90 days of the received of the PDL, must:	
	<ol style="list-style-type: none"> 1. Carry out an inventory and reconcile the inventory with the records maintained by PRDE and submit a report to OSEP demonstrating the inventory has been completed and the outcome of that inventory; 2. Identify equipment in the schools affected by the earthquakes so that they do not appear as being in use or active; and 3. Provide OSEP an assurance that it has policies and procedures in effect for managing equipment, that meet the requirements of 2 C.F.R. § 200.313(d). 	
Finding Number	2020-008	Noncompliance and Significant Deficiency – Matching, <u>Level of Effort</u>, Earmarking The percent is below the 90% compliance requirement for the Maintenance of Effort for FY 2019.
Assistance Listing Number	84.002	Adult Education – Basic Grants to States
Questioned Cost	None	
Auditee Comments	No final determination has been received from the Federal Awarding Agency.	
Finding Number	2020-009	Noncompliance and Significant Deficiency – Matching, <u>Level of Effort</u>, Earmarking PRDE did not reach the required expenditure level to comply with the requirement for the Maintenance of Effort for FY 2020.
Assistance Listing Number	45.310	Grants to States

continue

(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	2020-010	Material Noncompliance and Material Weakness – Procurement and Suspension and Debarment The PRDE maintains several areas to carry out the procurement processes, and they are not necessarily governed by the current regulations of the PRDE.
Assistance Listing Numbers	84.027 84.173	Special Education – Grants to State (IDEA, Part B) Cluster Special Education – Preschool Grants (IDEA Preschool)
Questioned Cost	None	
Auditee Comments	As per Program Determination Letter (Audit Control Number 02-20-19329) dated October 18, 2022, received from the Office of Special Education and Rehabilitative Services of the US Department of Education (Department), they required the PRDE that within 90 days of the received of the PDL, must provide OSEP with a copy of its policies and procedures regarding its procurement processes for various circumstances, particularly the processes for acquiring related service providers for children with disabilities. PRDE must ensure these policies and procedures align with its State-established guidelines for procurement.	
Finding Number	2020-011	Material Noncompliance and Material Weakness – Procurement and Suspension and Debarment There was no information included on the file related to the SAM verification regarding the suspension and debarment of the subrecipients tested.
Assistance Listing Numbers	10.555 10.559	National School Lunch Program (NSLP) – Child Nutrition Cluster Summer Food Service Program for Children (Summer Food Service Program) (SFSP)
Questioned Cost	None	
Auditee Comments	No final determination has been received from the Federal Awarding Agency.	
Finding Number	2020-012	Material Weakness – Reporting Reports tested do not was supported by PRDE official financial records SIFDE documentation were developed and maintenance by third-parties (consultants) and not kept by program or financial staff of the PRDE.
Assistance Listing Number	97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)
Questioned Cost	None	
Auditee Comments	No final determination has been received from the Federal Awarding Agency.	

continue

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

Finding Number	2020-013	Significant Deficiency – Reporting Deficiencies in the Schedule of Expenditures of Federal Awards of the PRDE.
Assistance Listing Numbers	All Federal Programs	
Questioned Cost	None	
Auditee Comments	<u>Program Determination Letter for ALNs 84.027 and 84.173</u> : As per Program Determination Letter (Audit Control Number 02-20-19329) dated October 18, 2022, received from the Office of Special Education and Rehabilitative Services of the US Department of Education (Department), they required the PRDE that within 90 days of the received of the PDL, must provide OSEP with documentation demonstrating PRDE: (1) has systems in place to maintain adequate records related to the Federal programs/transactions when preparing the SEFA; and (2) performs regular fiscal monitoring for reasonable assurance that all Federal programs/transactions are properly recorded and included in the SEFA as required under 2 C.C.R. § 200.510.	
Finding Number	2020-014	Material Noncompliance and Material Weakness – Special Tests and Provisions – Disbursement to or on Behalf of Students 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.
Assistance Listing Numbers	84.007 84.033 84.063	Federal Supplemental Educational Opportunity Grants (FSEOG) (Student Assistance Cluster) Federal Work-Study Program (FWS) Federal Pell Grant Program (Pell)
Questioned Cost	None	
Auditee Comments	No final determination has been received from the Federal Awarding Agency.	
Finding Number	2020-016	Noncompliance and Significant Deficiency – Subrecipient Monitoring The PRDE failed to 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.
Assistance Listing Number	84.002	Adult Education – Basic Grants to States
Questioned Cost	None	
Auditee Comments	No final determination has been received from the Federal Awarding Agency.	
Finding Number	2020-017	Material Noncompliance and Material Weakness – Subrecipient Monitoring The PRDE failed to 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.
Assistance Listing Number	10.558	Child and Adult Care Food Program

continue

(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	2020-018	Material Noncompliance and Material Weakness – Subrecipient Monitoring The PRDE failed to 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.
Assistance Listing Number	45.310	Grants to States
Questioned Cost	None	
Auditee Comments	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:**

Finding Number	2018-006	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	More than two years has passed without final determination of Cognizant Agency.	
Finding Number	2018-009	Reporting Delay in submitted the Quarterly Grant Accrual Report.
CFDA Numbers	45.310	Grants to States
Questioned Cost	None	
Auditee Comments	More than two years has passed without final determination of Cognizant Agency.	
Finding Number	2018-011	Special Tests and Provisions – Enrollment Reporting The Enrollment Reporting Roster File updated to the National Student Loan Data System (“NSLDS”) for the Award Year 2018-2019 was not submitted.
CFDA Numbers	84.007, 84.033, 84.063: Student Financial Assistance Cluster	

continue

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

Questioned Cost	Undetermined
Auditee Comments	More than two years has passed without final determination of Cognizant Agency.
Finding Number	2018-013 Allowable Costs/Costs Principles No evidence was available to support that the payment was properly documented.
CFDA Numbers	10.559 Summer Food Service Program for Children
Questioned Cost	None
Auditee Comments	More than two years has passed without final determination of Cognizant Agency.
Finding Number	2018-020 Eligibility Noncompliance with Annual Report Cards and High School Graduation Rate.
CFDA Numbers	84.010 Title I Grants to Local Educational Agencies
Questioned Cost	Undetermined
Auditee Comments	More than two years has passed without final determination of Cognizant Agency.
Finding Number	2018-021 Eligibility Noncompliance with Assessment System Security.
CFDA Numbers	84.010 Title I Grants to Local Educational Agencies
Questioned Cost	Undetermined
Auditee Comments	More than two years has passed without final determination of Cognizant Agency.

END OF SCHEDULE

2221411	2 CFR § 200.214	As part of our audit procedures, we selected a sample of twelve (12) subrecipients that to test internal controls and compliance with the Suspension and Debarment requirement. We reviewed the proposals, contracts and other award documents. The FFCE for each subrecipient to be. As a result of our tests, we noted that there was no information included on the Form 101 to the SAM verification regarding the suspension and debarment of the subrecipient. Also, there was not on Form 101 certification from the subrecipient regarding the requirements of the contract (Program Agreement) 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.	We recommend that the FFCE establish a formal procedure to verify each subrecipient status on SAM prior to evaluation of their proposals for participation on the program. Also to include the required contract clause regarding the suspension and debarment requirement on the contract/program agreement. The action item is being plan for the new contract (FY 2021-2022) as a result of a technical assistance visit provided from the Federal Acquisition Regulation subsequent to the fiscal year under audit.	When signing and reviewing the previous reports, AESAN verbally agreed with the findings. We agree on the issue with the SAM but disagree with the Suspension and debarment clause. Since August 8, 2021 the agency has taken administrative measures to assign the personnel to accomplish the compliance with the GSA and SISP, regarding Debarment and Suspension. As a result of a finding made by the Federal Government in July 2021, the USAID PWS gave us three different options to ensure that awarded contractors comply with the debarment, suspended, or otherwise disqualified from receiving Federal aid funds. These options included: <ul style="list-style-type: none"> Include a provision in the request for proposal and contract, with the sponsor or contractor would confirm with the signature, they are not debarred, suspended, or otherwise disqualified from receiving Federal practices include a verification with the long age of debarment and suspension for The Sponsors or contract to sign (As included in the new agreement) Verify the sponsor or contractor in the SAM site at GSA. The SISP and NSIP notified the sponsors of the new policy, and the clause was included in the Agreement and the progress of signature. As of August 2022, the SISP already signed and filed the new agreements of all 14 sponsors, that included the clause of suspension and debarment. Regarding the SAM number. In the past the SISP and NSIP application included a section where sponsors provided the Data & Business Data Universal Numbering System (DUNS). Since April 4, 2022, the federal government completed the transition to the new LEID as a result under the System for Award Management (SAM). With the new policy, the AESAN plans to notify all the sponsors within the next 30 days. The notification will include: 1. SAM will be required to participate in the NSIP program. 2. ACH on how to access the SAM request. 3. A brief explanation on how to request the SAM. Addressing the application and evaluation process of the finding. The SAM will part of the Evaluation File, that the AESAN has for each sponsor. The evaluation process is assigned to 3 different persons steps: 1. The program director collects the documents and uploads them to the scholar. 2. The program coordinator evaluates the file. The coordinator approves & the file is sent to the legal advisor for review. 3. The legal advisor makes a final review, and recommends the agreement signature, or the file is sent back to the step with recommendations.	Lourdes Garcia Salgado AESAN Director Carolina Vega SISP Coordinator Miana Rivera NSIP Coordinator Jocelyn Mares Legal Advisor	YES	October 15, 2022
221412	2 CFR § 200.515	During our audit procedures of the Schedule of Expenditures of Federal Awards (SEFA) prepared by the FFCE, we noted that the SEFA includes incorrect amounts in the funds pass-through to subrecipients such as SEFA. The SEFA and we obtain a transaction and opening out of the FFCE to other opportunity subrecipients within the FFCE. We look pass-through to subrecipients.	The FFCE must review the SEFA preparation process to include the correct amounts pass-through to subrecipients. The next step is the review of the SEFA preparation process to include the correct amounts pass-through to subrecipients. The next step is the review of the SEFA preparation process to include the correct amounts pass-through to subrecipients.	The Department of Education (FFCE) has always been committed to disclose and present the financial information accurately, and in compliance with local and federal regulations. FFCE understands the responsibility related to perform adequately as a pass-through entity because the Agency provides the grant funds in its name. In such programs, sub-awards are authorized to be made and accordingly payments are made to subrecipients. FFCE reports subrecipient documents based on federal program understanding. Each federal program has its particularities in terms of type of entities that participate as subrecipients, payments, reports and account numbers, among other factors. Therefore, we understand that understanding the type of transaction in a single process is not feasible. However, FFCE 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 FFCE presents them as the subrecipients amounts.	Erwin Rodriguez Castro Financial Director	YES	Current Fiscal Year
221413	34 CFR Section 200.2 (b)(5)(i)	As part of our audit procedures over internal controls and compliance for the special tests and provisions of the Annual Report Card, High School Graduation Rate requirement, we selected a sample of twenty-five (25) schools. In fifteen (15) interviews, we didn't receive the required information to validate that the FFCE is maintaining appropriate documentation to confirm when students have been removed from the adjusted cohort.	We recommend that the FFCE strengthen external controls procedures in order to provide the adequate evidence to ascertain that the procedures are performed as required.	FFCE properly maintain the supporting documentation for all students. Also, during the period 2020-2021 the FFCE performed on-site monitoring in which they obtain all information required in the Annual Report Card of a random selected schools. However, the documentation was kept in the school's facilities where they are currently in the search of the file 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 timely way.	Natividad Martinez Gonzalez Auxiliary Secretary for Federal Affairs Lyndee Lopez Central Level Planning Office Director Maria Guebara Title I Program Coordinator	YES	Current Fiscal Year
221414	34 CFR Section 604.15(a)(2)	As part of our audit procedures and from a population of 1,100 students, we selected a sample of fifty-five (55) Pell Award participants and their disbursements for a semester selected during the fiscal year 2020-2021. During the performance of the special test and provision disbursement to or on behalf of student requirement, we examined evidence of payments disbursed to student. While reviewing the disbursement evidence, we noted the following: 1. For fourteen (14) students, we noted that FFCE issue Pell payments for a total amount of \$24,208 after 14 days of the occurrence of the credit balance on the student account. 2. For twenty (20) students, we noted that FFCE issue SEEOG payments for a total amount of \$1,555 after 14 days of the occurrence of the credit balance on the student account. 3. For seventeen (17) students, we noted that FFCE issue FWS payments for a total amount of \$4,720 after 14 days of the occurrence of the credit balance on the student account.	We recommend that Management establish an aggressive review and formal monitoring of the internal controls established for the Pell, SEEOG and FWS payments issuance on time.	FFCE management accepts the auditor's findings and recommendations for the Pell and SEEOG payments of the fourteen (14) days of the occurrence to the credit balances. FFCE does not accept the FWS findings because the funds for this program were transferred from FSEOG according to the law due to the pandemic. It must be noted that these payments are sent to the students using direct deposit and it was found that due to the pandemic, some students opted for accounts and FFCE was unable to send the funds on a timely basis. Currently all the payments have been sent to the referenced students.	Arlene Rodriguez Auxiliary Director of Technical Education Duxon	YES	Current Fiscal Year
221415	34 CFR 604.15(b)(2) 34 CFR 604.15	As part of our audit procedures we requested to the FFCE a list of students that had a reduction or increase in attendance levels, graduated, withdrew, dropped out, or were absent. It never attended during the audit period. From this student list, we would select a sample of students in order to compare the data in the student's NSDSOE Enrollment Detail to the student's academic file and other institutional records to verify that the institution is accurately reporting the significant Campus Level and Program Level enrollment data elements that ED considers high risk. After we continuously maintained a follow-up process requested, the FFCE did not provided the student list on time for us to be able to perform our audit procedures for compliance purpose.	We recommend FFCE's management to assign a person to comply with responsibility to gather the information and maintain the Pell Award disbursement list from the institution records that has a reduction or increase in attendance level, graduated, withdrew, dropped out, or enrolled, or never attended during the audit period.	FFCE management agrees with the auditor's finding and recommendations, however, to open the audit an incomplete report was initially submitted and when the corrected report was handed in it was past the audit deadline. It must also be pointed out that FFCE is installing the Oracle SIS system to address the issue and will also be assigning an employee to be trained and assigned to enrollment reporting.	Arlene Rodriguez Auxiliary Director of Technical Education Duxon	YES	Current Fiscal Year
221416	34 CFR 604.22	As part of our audit procedures and from a population of twenty-two (22) students who received Title IV assistance and withdrew, dropped out, or never began attendance during the audit period, we selected a sample of seven (7) students to review the return of Title IV funds determination calculations to determine conformity with Title IV requirements. After the performance of our audit test, we found one (1) student for which the total amount of Title IV aid earned by the student was incorrectly calculated. The Department staff used an incorrect schedule of attendance to determine the percentage of Title IV Grant Assistance percentage earned for the period of enrollment completed. The percentage was wrongly calculated at 48.5% and the error of the new student Pell Award amount was incorrectly determined amounting to \$1,479.21. Then when FFCE computed the new Pell Award amount calculated amounting to \$1,479.21 with the Enrollment Cost Payable by the student amounting to \$1,410, the remaining student debt balance was determined incorrectly amounting to \$134.77. The remaining debt balance was paid by the student. When we recalculated the percentage earned for the period, it was determined that the correct percentage earned was 51.4%, this change in the percentage resulted in the Pell Award amount increase for a total amount of \$1,529.94. When we compared with the total Enrollment Cost Payable balance of \$1,410, then the new remaining student debt balance was \$116.67 and not \$134.77. Because the student's total debt amount of \$134.77, the FFCE will have to reimburse the student \$134.77.	We recommend FFCE's management to establish adequate internal control procedures to review the recalculation of the Pell award amount determined by the personnel assigned for this purpose, before the FFCE would issue the Pell award disbursement. Also we recommend that adequate training is provided to the employees that perform the procedures and monitor the compliance with it.	FFCE management agrees with the auditor's finding and recommendations. This was an isolated case because an incorrect academic calendar was used to calculate the awarded amount. FFCE is coordinating with Mr. Eric Saragoza ESAM/SPD of the Department of Education for R211 hiring of all personnel that will be working with the program. FFCE is also installing internal audits during the school year to prevent this issue.	Arlene Rodriguez Auxiliary Director of Technical Education Duxon	YES	Current Fiscal Year

2021-017	Section 200.331, Requirements for Pass through Entities of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the OIGs Compliance Supplement	<p>As part of our audit procedures, we obtained the list of subrecipients active during the fiscal year 2020-2021, monitoring visit schedules and disbursements made. We selected a sample of four (4) subrecipients to test compliance with internal control policies and compliance with the subrecipient monitoring requirement. We noted the following deficiencies during our tests:</p> <ol style="list-style-type: none"> For two (2) subrecipients, we did not find any evidence of the receipt of the Single Audit Report, Program Specific audit or the required financial statements and special agreed-upon procedure report. Also, we review the Federal Audit Clearinghouse, but no information was found for this subrecipient. For one (1) subrecipient, we could only find on the file a copy of the audited financial statements. In accordance with the PRIDE program manual and award contract, the entity was required to submit the special agreed-upon procedure report but it was not submitted. For one (1) subrecipient, the Department program staff incorrectly identify the report received as Single Audit report when in fact the subrecipient only submitted the audited financial statements and a Yellow Book Report. There wasn't a Schedule of Expenditures of Federal Awards included on the documents received from the subrecipient, nor was there any of the reports required by the Uniform Guidance from the auditor. Based on the PRIDE staff determination and the information included on the financial statements, the subrecipient should have submitted a Single Audit Report if the program was the only source of Federal expenditures, a Program Specific Audit Report. However, the PRIDE staff failed to correctly identify the reports received and no further actions were taken to receive the correct reporting from the subrecipient. For two (2) subrecipients (which includes the subrecipient included on item number 3 above), the review worksheet of the report received from the subrecipient did not include the basic information to determine if the internal control procedures have been followed: The worksheet did not include the following: person that reviews the report, date of the review, date the report was filed on the FAC, failed to adequately identify the report received as a Single Audit when that was not applicable. 	<p>We recommend that adequate training be provided to the program staff in charge of the report review. Functions of the program in order to comply with correct evaluation of the audit reports that the subrecipients must submit and be evaluated to comply with the audit or special report requirement established to the program subrecipients. Also, the current procedures for the receipt, review and follow-up with subrecipients must be revised in order to provide reasonable assurance that the subrecipient monitoring requirement related to the evaluation of the Single Audit reports is in place and operating to comply with this requirement.</p>	<p>PRIDE recognize that for the first two conditions, the program received the financial statement and did an evaluation of the fund used during the periods, the single audit was not required since federal funds did not exceed the required threshold. As a corrective action plan, the program will prepare the corresponding worksheet evaluation of reports for these subrecipients, and will assess any corrective action for them. Also, the program will be monitoring that all subrecipients financial requirements are reviewed in the corresponding period.</p> <p>On the other hand, condition number three and four the program will correct the evaluation worksheet that includes the person that review, date of the review and any follow-up requires to the specific reports. 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-recipients throughout the fiscal year. As part of the monitoring activities that were performed, sub-recipients were subject to on-site programmatic and fiscal monitoring, in-process interventions before disbursement, review and approval of budget transfers, and evaluation of achievement reports, validating that performance goals were met.</p>	Naijabes Martinez Gonzalez Auxiliary Secretary for Federal Affairs Luis Oppenheimer 21st Program Coordinator		YES	Current Fiscal Year
2021-018	200.331, Requirements for Pass through Entities of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the OIGs Compliance Supplement	<p>As part of our audit procedures, we obtained a copy of the worksheet for the Single Audit Follow-up (Hoja de Trabajo de Seguimiento de la Auditoria Unica) for the year 2020-2021. We noted the following deficiencies on the worksheet from a sample of ten (10) subrecipients audit reports evaluations tested:</p> <ol style="list-style-type: none"> For one (1) subrecipient, Single Audit Report for the year ended 5/30/2020 was received at FAC on 3/29/2022, the SAR was submitted to the FAC six months after the due date (as allowed by Covid related time extension). We requested from the program management any communications, emails, or letters sent to the subrecipient requesting the filing on the report after the due had passed. No evidence was provided that there was a request or follow-up with the subrecipient to assure compliance with the SAR submission requirement. We noted significant delays on the issuance of the management decision (Decision Administrativa) of seven (7) evaluations of Single Audit Reports. The dates of the management decisions were issued within February 15, 2022 and February 28, 2022. The issuance of the management decisions represents a delay of over nine (9) months for five subrecipient reports received between March 2021 and June 2021, and a delay of four (4) months for two reports received on October 2021. For three (3) subrecipients, on the worksheet indicated that the date of review of the Single Audit Reports review was done on February 15, 2021, however, the audit reports were submitted at the FAC on 4/26/2021, 6/29/2021 and 3/31/2021, respectively, therefore the date included on the control worksheet were incorrectly entered. One (1) subrecipient selected for test purposes was not included on the worksheet. We reviewed the information for subrecipient on the FAC and noted that the reports were received at the FAC on 3/02/2021. However, the subrecipient was not included on the control worksheet and the SAR was not evaluated on a timely basis. 	<p>We recommend that the current procedure is amended to include the requirement for the subrecipients to make a formal notification to the PRIDE's program staff the Single Audit is applicable or not at the end of each fiscal year when funds were pass through by the PRIDE. Also, to formally notify the PRIDE staff when the reports are submitted to the FAC. Also, the program management must monitor the accounts in charge of the maintenance of the control worksheet and the SAR reviews in order to assure that the reports reviews are performed on a monthly basis as stated on the internal control procedures.</p>	<p>After analyzing and reviewing the previous report, AESAN partially agrees with the finding. Regarding the Procedures to para el Informe de la Auditoria Unica. These findings as a repetitive end were previously observed as the Result of CACFP Management Evaluation 2021 made by USOA-FNS. During that Evaluation a new Process (See Attachment #1) was reviewed by AESAN personnel, and submitted to USOA-FNS for approval, as of February 2022. We believe that the auditors did not have the correct version of this document, for their review, to that regard we ask that the Attachment #1 is reviewed, because it complies with the finding requirements.</p> <p>Later, on 15 March 2022, USOA-FNS, approved the new procedure and Concluded the CACFP Management Evaluation, closing all the Findings (see Attachment #2). To that matter, we believe that the finding made the auditors regarding implementing new procedures are being address by the AESAN. Since the procedures are relatively new, I will take reasonable time for the operation and personnel to adjust.</p> <p>It is very important to mention that within the past six months the AESAN Accounting section major changes that include:</p> <ol style="list-style-type: none"> The CFACP dedicated supporting accountant was out of contract part-time employee, with annual renewal of contract. The AESAN Accounting Supervisor, ask for a transfer to another Department of Education Office. <p>The personnel issues, has impact the Accounting section production due to obvious reasons. To attend this matter the AESAN has designated Odalis Menard, with the role of Supervisor this section. AESAN has also published two (2) hiring opportunities, to fill the Accounting section. This vacancies announcement will expire on 15 September 2022. After that date AESAN will begin the process of interviewing and evaluating the candidates, that completed the Human Resources requirements. With these facts, we do accept the portion of the finding regarding supervision, monitoring and follow-up from the management section of the agency. We are committed to fix this matter, with the actions that were detailed before.</p>	Evelyn Lopez CACFP Coordinator Odalis Menard Executive Director / Accounting Supervisor Lourdes Garcia Santiago AESAN Director		YES	Immediately

Approved by: _____
Date: 10/18/2022

Evelyn Rodriguez Cardo
