

# *Financial Statements*

**PUERTO RICO DEPARTMENT OF EDUCATION**  
*(An Executive Agency of the Commonwealth of Puerto Rico)*  
**SINGLE AUDIT REPORT**  
**FISCAL YEAR ENDED JUNE 30, 2011**

**Puerto Rico Department of Education**  
*(An Executive Agency of the Commonwealth of Puerto Rico)*  
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# Aquino, De Córdova, Alfaro & Co., LLP

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Richard N. Alfaro, CPA (1951-1998) **Independent Auditors' Report**

*Jorge Aquino Barreto, CPA, CVA*

*Jerry De Córdova, CPA, JD*

*Miguel Angel Ortiz, CPA*

*Eduardo González Green, CPA, CFE*

Honorable Dr. Edward Moreno Alonso  
Secretary  
Department of Education of the  
Commonwealth of Puerto Rico  
San Juan, Puerto Rico

We have audited the accompanying Statement of Cash Receipts and Disbursements (the Statement) of the Department of Education of the Commonwealth of Puerto Rico (the "PRDE"), for the year ended June 30, 2011. The Statement is responsibility of the PRDE's management. Our responsibility is to express an opinion on the 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 Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statement's presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, the Statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America.

In our opinion, the Statement referred to above presents fairly, in all material respects, in conformity with the basis of accounting described in Note 2, the statement of cash receipts and disbursements of each fund of the Department of Education of the Commonwealth of Puerto Rico for the year ended June 30, 2011.

In accordance with *Government Auditing Standards* we have also issued our report dated March 28, 2012, on our consideration of the PRDE's internal control over financial reporting and on our test 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 or on compliance and the result 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 Governmental Auditing Standards and should be considered in assessing the results of our audit.

Honorable Dr. Edward Moreno Alonso  
Secretary  
Department of Education of the  
Commonwealth of Puerto Rico  
San Juan, Puerto Rico

As discussed in the Note 6 (f) to the Statement, the PRDE has expended certain federal grants funds in a manner that may have violated certain of the restrictive provisions of the related grants. The possible outcome of this matter is uncertain at this time. If expenditures are disallowed as a result of this situation, the PRDE may be subject to possible federal claims for refunds of grants monies and the imposition of several remedies or enforcement actions, as more fully explained in Note 6 (f) to the Statement.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We have audited the Statement of the Department of Education of the Commonwealth of Puerto Rico for the year ended June 30, 2011, and have issued our report thereon dated March 28, 2012. Our audit was performed for the purpose of forming an opinion on the Statement taken as a whole. The accompanying Schedule for Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the Statement. Such information has been subjected to the auditing procedures applied in the audit of the Statement and, in our opinion, is fairly stated, in all material respects, in relation to the Statement taken as a whole.

March 28, 2012

*Aquino, De Cordova, Alfaro & Co. LLP*

Stamp number 2635069  
has been affixed to the  
original report



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**Puerto Rico Department of Education**  
*(An Executive Agency of the Commonwealth of Puerto Rico)*  
**Management's Discussion and Analysis**  
**Fiscal Year Ended June 30, 2011**

**Introduction**

The management of the Puerto Rico Department of Education (the PRDE) provides this annual financial report and the discussion and analysis of the PRDE's financial performance during the fiscal year ended June 30, 2011. This report includes the cash received and cash paid as a result of the operating activities of the PRDE including both funds appropriated by the Commonwealth of Puerto Rico (the Commonwealth) and federal financial assistance programs granted by the US Governmental Agencies (USGA).

The annual report includes the independent auditors' report, the statement of cash receipts and disbursements, the schedule of expenditures of federal awards and the management's discussion and analysis. This report also includes notes that explain in more detail the information contained in the statement of cash receipts and disbursements.

**Financial Analysis**

The Statement of Cash Receipts and Disbursements presents the funds appropriated by the Commonwealth and the grants received from USGA.

**Cash Receipts and Disbursements – condensed financial information:**

	<u>Year Ended June 30</u>		<u>Change</u>	
	<u>2011</u>	<u>2010</u>	<u>In dollars</u>	<u>Percentage</u>
<b>Cash Receipts:</b>				
Commonwealth appropriations	\$ 2,329,010,347	\$ 2,276,322,488	\$ 52,687,859	2.3%
Intergovernmental – federal government	1,382,157,010	1,420,199,950	(38,042,940)	(2.7)%
Total cash receipts	<u>3,711,167,357</u>	<u>3,696,522,438</u>	<u>14,644,919</u>	
<b>Cash Disbursements:</b>				
Current:				
General government	3,301,386	5,779,638	(2,478,252)	(42.9)%
Vocational and Technical Education	89,788,459	99,469,921	(9,681,462)	(9.7)%
Community Schools	2,353,582,512	2,337,324,641	16,257,871	0.7%
Integrated Educative Services for the Disabled	485,386,291	359,483,453	125,902,838	35.0%
Food Services for Students	333,191,768	334,157,991	(966,223)	(0.3)%
Schools' Quality of Life and Drug Free	34,119,430	35,077,160	(957,730)	(2.7)%
Integrated Services to Communities	73,599	236,879	(163,280)	(68.9)%
Adult Education	25,216,394	19,252,836	5,963,558	31.0%
Open Schools	209,448	525,696	(316,248)	(60.2)%
Technological Institutes	20,438,089	18,736,721	1,701,368	9.1%
Auxiliary Services and Technical Assistance	47,025,136	52,239,367	(5,214,231)	(10.0)%
Institute for Administrative Training and Counseling to Schools	283,225	334,522	(51,297)	(15.3)%
Public Schools Maintenance	30,447,105	51,846,591	(21,399,486)	(41.3)%
Printing Services	942,288	1,240,627	(298,339)	(24.0)%
Indirect Costs	29,501,139	23,809,504	5,691,635	23.9%
Joint Resolutions	23,560,320	100,225,540	(76,665,220)	(76.5)%
Special Accounts	187,180,264	166,818,435	20,361,829	12.2%
Total cash disbursements	<u>3,664,246,853</u>	<u>3,606,559,522</u>	<u>57,687,331</u>	1.6%
Excess for the year	<u>\$ 46,920,504</u>	<u>\$ 89,962,916</u>	<u>\$ (43,042,412)</u>	(47.8)%



**Financial Analysis** (continued)

The cash disbursements presented under General Government decreased \$2.5 million or 42.9% from last year. The explanation for this decrease is that during the fiscal year ended June 30, 2011, PRDE management transferred \$2.2 million from the approved budget for General Government into the budget for Community Schools. These funds were used to complement the purchase of educational materials, books and equipment for schools.

The cash disbursements for the Integrated Educative Services for the Disabled increased \$125.9 million or 35% from last year. During 2011, there was an increase of 7,000 new students enrolled to participate of the Special Education Program. In order to provide the necessary services to these students, the program needed to incur in additional expenses such as the contracting of professional services for the evaluation of therapies. When compared with 2010, the cash disbursements for these expenses increased by approximately \$55 million. In relation to the increase in the number of students served, there was also an increase in the cash disbursements for transportation services and payroll amounting to \$22.3 million and \$21.3 million, respectively. Another reason for the increase in disbursements under this program was that additional funds were received under a new grant created by the USDE in August of 2010 called Education Jobs Funds. This grant allows to pay salaries and benefits, and to rehire, retain, or hire new employees for the 2010-2011 school year. Under this new grant, PRDE disbursed \$18.5 million during the year ended June 30, 2011.

The Integrated Services to Communities' cash disbursements decreased \$163,280 or 68.9% from last year. The main reason for this decrease was a reduction in the disbursements related to the payroll proportionate to the reduction in the contracting of part-time personnel.

The cash disbursements for the Adult Education increased \$6 million or 31% from last year. The main two reasons for this increase were the increase authorized for the salaries paid to part-time personnel, which represented an increase in funds disbursed of \$3 millions and the purchase of computer equipment for the creation of mobile computer laboratories to be used at the Adult Education Centers during 2011 that increased the amount of funds disbursed by another \$3 million.

The cash disbursements for the Open Schools decreased \$316,248 or 60.2% from last year. The 2011 was the last year of this program; therefore, the cash disbursed was related to payroll costs only of the personnel performing the program's closing activities.

The cash disbursements for the Public School Maintenance decreased \$21.4 million or 41.3% from last year. The cash disbursements related to the maintenance and repair of buildings decreased by \$11.6 million when compared to 2010 and the cash disbursements related to building improvements decreased by another \$10.3 million. Strengthening of the existing roofs at the schools, installation of new windows and doors as well as restrooms remodeling were some of the improvements that took place during 2010.



**Financial Analysis (continued)**

The cash disbursements under the Indirect Costs classification increased by \$5.7 million or 23.9% when compared with last year. The main reason for this increase was the contracting of external personnel to perform maintenance jobs at the schools for which PRDE disbursed \$11.4 million during the year ended June 30, 2011, off-set by a decrease of \$6 million on the disbursements made under this classification of funds for the purchase of educational materials. Although the amount disbursed for the purchase of educational materials under this fund classification decreased during 2011, PRDE had an increase in the amount disbursed for these purchases under the Community School fund classification. This is explained in the first paragraph of the previous page, which shows an increase in funds for the Community Schools' budget for these purposes.

The cash disbursements under the Joint Resolutions classification decreased by \$76.7 million or 76.5%. The main reason for this decrease was that during the year ended June 30, 2010, PRDE disbursed some significant amount of funds in events that were particular of that year. Such events included the payment of \$35.5 million in economic incentives to teachers and other PRDE's employees associated with Law No. 7 of March 9, 2009, "*Ley Especial Declarando Estado de Emergencia Fiscal y Estableciendo Plan Integral de Estabilización Fiscal para Salvar el Crédito de Puerto Rico*" as well as the payments of debts to the PR Power Authority and PR Water and Sewer Authority of \$18 million and \$6.6 million, respectively.

**Governmental Funds Results**

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

General Fund

This is the main operating fund of the PRDE and is used to account for the funds appropriated by the Commonwealth.

**Cash Receipts and Disbursements – General Fund- condensed financial information:**

	General Fund		Change	
	2011	2010	In dollars	Percentage
<b>Cash Receipts:</b>				
Commonwealth appropriations	\$ 2,329,010,347	\$ 2,276,322,487	\$ 52,687,860	2.3%
<b>Cash Disbursements:</b>				
Total cash disbursements	2,330,206,583	2,277,790,332	52,416,251	2.3%
Deficiency for the year	\$ (1,196,236)	\$ (1,467,845)	\$ 271,609	18.5%



**Puerto Rico Department of Education**  
*(An Executive Agency of the Commonwealth of Puerto Rico)*  
**Management's Discussion and Analysis**  
**Fiscal Year Ended June 30, 2011**

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**Financial Analysis (continued)**

**Title I Fund**

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

**Cash Receipts and Disbursements – Title I Fund- condensed financial information:**

	<u><b>Title I</b></u>		<u><b>Change</b></u>	
	<u><b>2011</b></u>	<u><b>2010</b></u>	<u><b>In dollars</b></u>	<u><b>Percentage</b></u>
<b>Cash Receipts:</b>				
Intergovernmental – federal government	\$ 596,578,752	\$ 699,689,746	\$ (103,110,994)	(14.7)%
<b>Cash Disbursements:</b>				
Total cash disbursements	<u>538,488,137</u>	<u>640,720,845</u>	<u>(102,232,708)</u>	(16.0)%
Excess for the year	<u>\$ 58,090,615</u>	<u>\$ 58,968,901</u>	<u>\$ (878,286)</u>	(1.5)%

The decrease in cash disbursements of the Title I Fund responds directly to a decrease in funds received during the year ended June 30, 2011. During 2010, PRDE received \$219 million from the Title I Grants to Local Educational Agencies, Recovery Act as part of the American Recovery and Reinvestment Act of 2009, abbreviated ARRA (Pub.L. 111-5; accordingly, the cash disbursements during that year were greater than any other year. During 2011, PRDE received \$88.5 million from these funds; therefore, a reduction in cash disbursements was expected.

**Contacting Financial Management**

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





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**Puerto Rico Department of Education**  
*(An Executive Agency of the Commonwealth of Puerto Rico)*  
**Statement of Cash Receipts and Disbursements**  
**Fiscal Year Ended June 30, 2011**

	General Fund	Title I	Other Governmental Funds	Total Governmental Funds	Adjustments	Governmental Activities
<b>Cash Receipts:</b>						
Commonwealth appropriations	\$ 2,329,010,347	—	—	2,329,010,347	—	2,329,010,347
Intergovernmental – federal government	—	596,578,752	785,578,258	1,382,157,010	—	1,382,157,010
Total cash receipts	<u>2,329,010,347</u>	<u>596,578,752</u>	<u>785,578,258</u>	<u>3,711,167,357</u>		<u>3,711,167,357</u>
<b>Cash Disbursements:</b>						
Current:						
General government	3,301,386	—	—	3,301,386	—	3,301,386
Vocational and Technical Education	74,473,039	—	15,315,420	89,788,459	—	89,788,459
Community Schools	1,493,201,234	538,488,137	321,893,141	2,353,582,512	—	2,353,582,512
Integrated Educative Services for the Disabled	271,300,650	—	214,085,641	485,386,291	—	485,386,291
Food Services for Students	130,205,840	—	202,985,928	333,191,768	—	333,191,768
Schools' Quality of Life and Drug Free	28,760,638	—	5,358,792	34,119,430	—	34,119,430
Integrated Services to Communities	73,599	—	—	73,599	—	73,599
Adult Education	4,524,361	—	20,692,033	25,216,394	—	25,216,394
Open Schools	209,448	—	—	209,448	—	209,448
Technological Institutes	6,270,319	—	14,167,770	20,438,089	—	20,438,089
Auxiliary Services and Technical Assistance	46,085,422	—	939,714	47,025,136	—	47,025,136
Institute for Administrative Training and Counseling to Schools	283,225	—	—	283,225	—	283,225
Public Schools Maintenance	30,333,411	—	113,694	30,447,105	—	30,447,105
Printing Services	942,288	—	—	942,288	—	942,288
Indirect Costs	29,501,139	—	—	29,501,139	—	29,501,139
Joint Resolutions	23,560,320	—	—	23,560,320	—	23,560,320
Special Accounts	187,180,264	—	—	187,180,264	—	187,180,264
Total cash disbursements	<u>2,330,206,583</u>	<u>538,488,137</u>	<u>795,552,133</u>	<u>3,664,246,853</u>		<u>3,664,246,853</u>
Excess (deficiency)	<u>(1,196,236)</u>	<u>58,090,615</u>	<u>(9,973,875)</u>	<u>46,920,504</u>		<u>46,920,504</u>

See accompanying notes to Statement of Cash Receipts and Disbursements.

**Puerto Rico Department of Education**

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

Notes to the Statement of Cash Receipts and Disbursements

June 30, 2011

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**(1) Reporting Entity**

The Department of Education of the Commonwealth of Puerto Rico (the PRDE) was organized under Article V, Section 6 of the Constitution of the Commonwealth of Puerto Rico (the Commonwealth). The PRDE is presented as part of the Commonwealth's basic financial statements. The PRDE is responsible for the planning and administration of all public elementary, secondary and some post-secondary education throughout Puerto Rico. The operations of the PRDE are administered by the Secretary of Education, who is appointed by the Governor of the Commonwealth with the advice and consent of the Senate of Puerto Rico.

On July 15, 1999, the Legislature of the Commonwealth of Puerto Rico enacted Act Number 149, "Ley Orgánica del Departamento de Educación Pública de Puerto Rico." This Act establishes Puerto Rico's public policy in the educative area and creates a public education system based on community schools with academic, fiscal and administrative autonomy. The community schools autonomy allows them to design develop and engage in income generating activities. Such revenues and the related expenditures are accounted for and administered directly by each community school. The PRDE has no accounting control of such transactions but management believes that such revenues and related expenditures are not significant in regards to the statement of cash receipts and disbursements taken as a whole.

The Secretary of Education is also the Executive Director of the Office for the Improvement of the Public Schools (the OIPS) and the PRDE has oversight responsibilities over it. However, the accompanying Statement of Cash Receipts and Disbursements does not include the activities of the OIPS, since its operations are subject to a separate financial or single audit, as applicable or required.

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

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

**(a) Basis of accounting**

The accompanying statement of cash receipts and disbursements is prepared using the cash basis of accounting. This basis of accounting involves the recognition of revenue when cash is received and the recognition of an expense when cash is disbursed.

**(b) Fund accounting**

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions



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

**(b) Fund accounting (continued)**

or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of the PRDE that are reported in the accompanying statement of cash receipts and disbursements have been classified into governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column. The following are classified as major governmental funds:

- **General Fund** - This is the main operating fund of the PRDE and is used to account for the funds appropriated by the Commonwealth.
- **Title I Grants to Local Educational Agencies Fund** – This fund is used to account for federal financial assistance programs restricted to help local education agencies (LEAs) and schools improve the teaching and learning of children failing, or most at-risk of failing, to meet challenging state academic standards.

**(c) Budgetary Accounting**

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

Cash disbursements – budgetary 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 stated by Act No. 123 of August 17, 2001, which amended the then existing appropriations and encumbrances lapsing provisions of Act No. 230 of July 23, 1974. Unencumbered appropriations lapse year-end.



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

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

The PRDE's employees are classified as either educational or non-educational. The educational employees receive vested rights for two months paid vacation at the end of each year of full-time employment and accrue sick leave at two days per month worked. The allowed maximum amount of days of accumulated sick leave is 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 regular vacation and sick leave at 2.5 days and 1.5 days per calendar month, respectively. The allowed maximum number of accumulated days of regular vacation and sick leave is 60 days and 90 days, respectively.

During fiscal year 1997-98, the Commonwealth amended the Public Service Personnel Act to allow certain component units and the executive agencies of the Commonwealth of Puerto Rico to annually pay their employees the accumulated vacation and sick leave earned in excess of the limits mentioned above.

During fiscal year 2008-09, the Commonwealth amended the above mentioned Act, through Act No. 7 of March 9, 2009, "Ley Especial Declarando Estado de Emergencia Fiscal y Estableciendo Plan Integral de Estabilización Fiscal para Salvar el Crédito de Puerto Rico", eliminating the benefit granted to the employees' of certain component units and some executive agencies of the Commonwealth to annually pay their accumulated vacation and sick leave earned in excess of their balances.

**(e) Risk Management**

The Commonwealth's Secretary of the Treasury is responsible for assuring that the PRDE's property is properly insured. Annually, the PRDE compiles the information of all property owned and its respective market value. After evaluating this information, it is submitted to the Area of Public Insurance at the Commonwealth's Department of the Treasury, 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.



**Puerto Rico Department of Education**

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

Notes to the Statement of Cash Receipts and Disbursements

June 30, 2011

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**(3) Stewardship, Compliance and Accountability**

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

**(4) Indirect Cost Allocation Plan**

Generally, every year the Department submits a proposal for an indirect cost allocation plan for approval by the USDE, the Audit Cognizant Agency. On May 17, 2011, the USDE entered into an Indirect Cost Rate Agreement (No. 2010-263B) with the PRDE which replaced the previous agreement No. 2010-263A. This agreement includes final rates which became effective on July 1, 2008 until June 30, 2009 and includes provisional rates, covering the period under audit, beginning on July 1, 2010 until December 31, 2011. The rates within the Agreement for these two periods were 11.4% for school lunch programs and 4.2% for all other programs based on salaries and wages, including fringe benefits. These rates are used to allocate qualified types of expenditures from state funds to the federal financial assistance programs.

**(5) Retirement Plan**

a. Teachers Retirement System (TRS)

The TRS is a single-employer defined-benefit plan sponsored by the Commonwealth. All active teachers of the Department are covered by TRS under the terms of Act No. 91 of March 29, 2004 that superseded Act No. 218 of 1951. Licensed teachers working in private schools may also participate in the system as long as the required employer and employee contributions are satisfied.

The plan provides 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 is computed based on the highest three years of compensation recognized by TRS. The annuity for which a plan member is eligible is limited to a minimum of \$300 per month and a maximum of 75% of the average compensation.

*Funding Policy for TRS* - Effective January 27, 2000, participant contributions were increased to 9% of their compensation, as provided by Act No. 45 of 2000. The Commonwealth, as sponsor, matches the participants' contributions at a rate of 8.5% of the applicable payroll. Contribution rates are established by law and are not actuarially determined.



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

Notes to the Statement of Cash Receipts and Disbursements

June 30, 2011

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**(5) Retirement Plan (continued)**

**b. Employees' Retirement System (ERS)**

All other employees of the Department participate in the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS). ERS is a defined benefit, cost-sharing, multi-employer plan sponsored by the Commonwealth under the terms of Act No. 447 of 1951, as amended. Participation is mandatory for regular employees.

The ERS issues a publicly available financial report that includes its financial statements and required supplementary information. Members who have attained at least 55 years of age and have completed at least 30 years of creditable service or members who have attained at least 58 years of age and have completed at least 10 years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be 1.5% of the average compensation multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$300 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive up to a maximum of 65% of the average compensation or if they have attained 55 years of age will receive up to a maximum of 75% of the average compensation.

Disability retirement benefits are available to members for occupational and non-occupational disability up to a maximum benefit of 50% of the average compensation.

However, for non-occupational disability, a member must have at least 10 years of creditable service.

Act No. 1 of 1990 made certain amendments applicable to new participants joining the System effective April 1, 1990. These changes consist principally of the establishment of contributions at 8.275% of their monthly gross salary, an increase in the retirement age to 65, a decrease in the annuity benefit to 1.5% of the average compensation for all years of creditable service, a decrease in the maximum disability, and death benefits annuities from 50% to 40% of average compensation, and the elimination of the Merit Annuity for participants who have completed 30 years of creditable service.



**Puerto Rico Department of Education**

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

Notes to the Statement of Cash Receipts and Disbursements

June 30, 2011

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**(5) Retirement Plan (continued)**

The contribution requirements for both employees and employers are established by law and are not actuarially determined. Employees are required to contribute 5.775% or 8.275% of their monthly gross salary. The Department is required to contribute 9.275% of its employees' gross salaries.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted with the purpose of establishing a new pension program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of System 2000.

System 2000 is a hybrid-defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note, or (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000.

The employers' contribution (9.275% of the employees' salary) will be used to fund the current plan. System 2000 reduces the retirement age from 65 years to 60 years for those employees who joined the current plan on or after April 1, 1990.

**c. Funding Policy**

Funding Policy Contribution requirements are established by law and are as follows:

PRDE	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600 8.275% of gross salary over \$6,600
Hired on or after April 1, 1990	8.275% of gross salary



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**Puerto Rico Department of Education**

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

Notes to the Statement of Cash Receipts and Disbursements

June 30, 2011

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**(5) Retirement Plan (continued)**

The PRDE's contractually required contributions for the years ended June 30, 2011, 2010 and 2009 amounted to \$43,631,716, \$154,774,967 and \$166,574,518, respectively.

Additional information on the ERS is provided in its financial statements for the years ended June 30, 2011 and 2010, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities, P.O. Box 42003, San Juan, PR 00940-2003.

**(6) Commitments**

**a. Federal Financial Assistance Programs**

The Department administers certain federal financial assistance programs including programs from the American Recovery and Reinvestment Act of 2009, abbreviated ARRA (Pub.L. 111-5) and commonly referred to as the Stimulus or The Recovery Act. Therefore, the Department is required to comply with the audit requirements established by Office of Management and Budget Circular A-133, Audits of State and Local Governments.

**b. Operational Leases**

The Department is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore neither the assets nor the liabilities of the lease agreements are reflected in the accounting records. Most leased property is from the Puerto Rico Public Buildings Authority, a component unit of the Commonwealth of Puerto Rico. Rent paid during the fiscal year ended June 30, 2011, under these lease agreements amounted to approximately \$107 million. Information of the future minimum rental payments required under operating leases was not available.

**c. Compliance Agreement**

Over the past several years, the USDE and Puerto Rico have worked cooperatively toward addressing many systematic and longstanding grant management and accountability issues that PRDE has been facing with regard to its administration of Federal education grants. On December 17, 2007, the USDE entered into a Compliance Agreement with Puerto Rico and PRDE because USDE determined that it would take PRDE more than one year to completely address several programmatic issues requiring corrective action and to establish continued cooperation of other key agencies of the Puerto Rico government in this effort, including the Puerto Rico Department of Treasury and PRDE's Office of Management and Budget.



**Puerto Rico Department of Education**

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Notes to the Statement of Cash Receipts and Disbursements

June 30, 2011

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**(6) Commitments – (continued)**

By the end of the three-year 2007 Agreement, specifically on February 14, 2011, the USDE conducted a site visit to Puerto Rico and PRDE and based on the information received during the site visit, along with other information and reports provided to the USDE as required by the 2007 Agreement, the USDE issued a letter to PRDE, date June 14, 2011, stating that it has determined that Puerto Rico and PRDE are now in compliance with requirements under the 2007 Agreement. The USDE concluded in such letter that the results of the 2007 Agreement demonstrated PRDE commitment to ensuring that Federal education program funds are used appropriately and effectively to educate children and students in the Commonwealth of Puerto Rico.

d. Special Conditions

On a communication dated June 3, 2010, the USDE issued a letter imposing special conditions on all grants awarded to the PRDE for FY 2010, including grants awarded under ARRA. The Special Conditions Letter requires PRDE to submit status reports on a series of items connected to the 2007 Memorandum of Agreement. Specifically, PRDE is required to submit status reports regarding (i) the proposed reorganization, (ii) time distribution, (iii) asset management, (iv) procurement strategies for special education related purchases, (v) monitoring of Title I, Part A equitable services providers' contracts, and (vi) special education – timely correction of noncompliance. The latest status report submitted by the PRDE under these terms was dated February 1, 2011.

e. Prior Audit Resolutions

Total questioned costs included in the single audit reports for fiscal years ended June 30, 2010, 2009, 2008 and 2007 amounted to \$1,357,520, \$3,201,441, \$10,079,777 and \$12,708,307, respectively. The resolution of such questioned amounts is currently being closely worked with USDE. For the single audits of fiscal years ended on June 30, 2008, 2007 and 2006 final determination on some findings was received from the USDE. Disallowed grant expenditures amounted to \$2,569,597.

f. Current Single Audit Results

The Report on Compliance and Internal Control over Compliance Applicable to Each Major Federal Award Program issued in connection with the single audit for the year ended June 30, 2011, disclosed several instances of noncompliance with applicable laws and regulations that were considered significant deficiencies. Some of these significant deficiencies were also considered material weaknesses. Additionally, the schedule of findings and questioned costs in the single audit report includes federal funds questioned in the amount of \$1,039,504.



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**Puerto Rico Department of Education**

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Notes to the Statement of Cash Receipts and Disbursements

June 30, 2011

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**(6) Commitments - continued**

g. Other Audits

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

Under certain circumstances, as provided by Act No. 9 dated November 26, 1975, 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 no limitation 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. The financial impact and enforcement actions, if any, that might be taken by the oversight entities cannot presently be determined.

h. Other Litigation Matters

The PRDE is a party to certain other lawsuits resulting from the normal course of business, including but not limited to labor, torts, and breach of contract. Management believes that it has a reasonable possibility of prevailing in these cases.





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Richard N. Alfaro,

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

Jorge Aquino Barreto, CPA, CVA

Jerry De Córdova, CPA, JD

Miguel Angel Ortiz, CPA

Eduardo González Green, CPA, CFE

Honorable Dr. Edward Moreno Alonso  
Secretary  
Department of Education of the  
Commonwealth of Puerto Rico  
San Juan, Puerto Rico

We have audited the accompanying Statement of Cash Receipts and Disbursements (the "Statement") of the Department of Education of the Commonwealth of Puerto Rico (the "PRDE") for the fiscal year ended June 30, 2011 and have issued our report thereon dated March 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report on the Statement discloses that, as described in Note 2 to the Statement, the PRDE prepares its Statement on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

### **Internal Control over Financial Reporting**

Management of the PRDE is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the PRDE's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Statement but not for the purpose of expressing an opinion on the effectiveness of the PRDE's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the PRDE's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such as there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Honorable Dr. Edward Moreno Alonso  
Secretary  
Department of Education of the  
Commonwealth of Puerto Rico  
San Juan, Puerto Rico

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as findings 2011-01, 2011-02 and 2011-03 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or 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.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the PRDE's Statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as finding 2011-01, 2011-02 and 2011-03.

The PRDE's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the PRDE's response and, accordingly, we do not express an opinion on it.

This report is intended solely for the information and use of the management and officials of the Puerto Rico Department of Education, the Commonwealth of Puerto Rico, the United States Department of Education (cognizant agency), federal awarding agencies, pass-through entities, and other regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

March 28, 2012

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has been affixed to the  
original report



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Richard N. Alfaro, CPA (1951-1998)

Jorge Aquino Barreto, CPA, CVA  
Jerry De Córdova, CPA, JD  
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Eduardo González Green, CPA, CFE

## **Independent Auditors' Report on Compliance with Requirements that could have Direct and Material Effect on each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

Honorable Dr. Edward Moreno Alonso  
Secretary  
Department of Education of the  
Commonwealth of Puerto Rico  
San Juan, Puerto Rico

### **Compliance**

We have audited the Puerto Rico Department of Education (the "PRDE") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the PRDE's major federal programs for the fiscal year ended June 30, 2011. The PRDE's major federal programs are identified in the summary of the auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the PRDE's management. Our responsibility is to express an opinion on the PRDE's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 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. Our audit does not provide a legal determination of the PRDE's compliance with those requirements.

Honorable Dr. Edward Moreno Alonso  
 Secretary  
 Department of Education of the  
 Commonwealth of Puerto Rico  
 San Juan, Puerto Rico

As described in findings in the accompanying schedule of findings and questioned costs, the PRDE did not comply with requirements that are applicable to the following programs:

2011-02	Allowable Costs/Cost Principles, Procurement, Suspension and Debarment	84.010	Title I Grant to Local Educational Agencies
		84.048	Career and Technical Education-Basic Grants to State
		84.186	Safe and Drug Free Schools and Communities- State Grants
		84.287	Twenty-First Century Community Learning
		84.318	Education Technology State Grants
		84.367	Improving Teachers Quality
		84.386	Education Technology State Grants, Recovery Act
2011-03	Activities Allowed or Unallowed, Allowable Costs/Cost Principles	84.394	State Fiscal Stabilization Fund, Recovery Act
		10.555	National School Lunch Program
		84.010	Title I Grant to Local Educational Agencies
		84.027	Special Education- Grants to States
		84.318	Education Technology State Grants
		84.367	Improving Teachers Quality
		84.386	Education Technology State Grants, Recovery Act
2011-04	Eligibility	84.389	Title I Grant to Local Educational Agencies, Recovery Act
		84.394	State Fiscal Stabilization Fund, Recovery Act
2011-05	Special Tests and Provisions - Verification	84.027	Special Education- Grants to States
		84.173	Special Education- Preschool Grants
2011-06	Special Tests and Provisions- Disbursements to or on behalf of students	84.007	Federal Supplemental Educational Opportunity Grant
		84.033	Federal Work - Study Program
		84.063	Federal Pell Grant Program

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



Honorable Dr. Edward Moreno Alonso  
Secretary  
Department of Education of the  
Commonwealth of Puerto Rico  
San Juan, Puerto Rico

In our opinion, except for the noncompliance described above, the PRDE complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

#### **Internal control over compliance**

Management of the PRDE is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the PRDE's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the 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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with 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 did not consider any of the deficiencies in internal control over compliance described in the accompanying schedule of findings and question costs to be material weaknesses.



*A significant deficiency in internal control over compliance* is a deficiency, or 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

Honorable Dr. Edward Moreno Alonso  
Secretary  
Department of Education of the  
Commonwealth of Puerto Rico  
San Juan, Puerto Rico

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 finding 2011-02 to 2011-06 to be significant deficiencies.

The PRDE's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan and Response to Single Audit Package. We did not audit the PRDE's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the management and officials of the Puerto Rico Department of Education, the Commonwealth of Puerto Rico, the United States Department of Education (cognizant agency), federal awarding agencies, pass-through entities, and other regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

March 28, 2012

*Aquino, De Cordova, Alfaro & Co. LLP*

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**Puerto Rico Department of Education**  
*(An Executive Agency of the Commonwealth of Puerto Rico)*  
**Section 1 – Schedule of Expenditures of Federal Awards**  
**Fiscal Year Ended June 30, 2011**

<b>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</b>	<b><u>Federal CFDA Number</u></b>	<b><u>Pass-Through Entity Identifying Number</u></b>	<b><u>Federal Expenditures</u></b>
<b>U.S Department of Agriculture:</b>			
Food Donation - Commodities (Non-Cash Assistance)	10.550		\$ 14,713,339
Child Nutrition Cluster:			
National School Lunch Program	10.555		159,535,499
Summer Food Service Program for Children	10.559		12,742,164
Child and Adult Care Food Program	10.558		27,521,380
State Administrative Expenses for Child Nutrition	10.560		2,417,708
Fresh and Fruit Vegetables Program	10.582		404,393
Child Nutrition Discretionary Grants Limited Availability	10.579		364,784
<b>Total U.S. Department of Agriculture</b>			<b>217,699,267</b>
<b>National Endowment of the Humanities:</b>			
State Library Program	45.310		2,541,654
<b>U.S. Department of Education:</b>			
Adult Education - State Grant Program	84.002		15,776,314
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grants	84.007		28,706
Federal Work - Study Program	84.033		58,891
Federal Pell Grant Program	84.063		13,980,098
Academic Competitiveness Grants	84.375		100,075
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010		472,807,988
Title I Grants to Local Educational Agencies, Recovery Act	84.389		65,680,149
Title I Program for Neglected and Delinquent Children	84.013		488,902
Special Education Cluster:			
Special Education - Grants to State	84.027		124,987,552
Special Education - Grants to State, Recovery Act	84.391		67,615,517
Special Education - Preschool Grants	84.173		1,195,970
Special Education - Preschool Grants, Recovery Act	84.392		1,707,368
Impact Aid	84.041		939,714
Vocational Education - Basic Grants to States	84.048		13,034,925
Byrd Honors Scholarships	84.185		388,438
Safe and Drug-Free Schools and Communities - State Grants	84.186		5,358,792
Education for Homeless Children and Youth	84.196		3,441,838
Education for Homeless Children and Youth, Recovery Act	84.387		696,710
Even Start - State Educational Agencies	84.213		2,374,065
Tech-Prep Education	84.243		1,285,100
Twenty - First Century Community Learning Centers	84.287		34,390,062

(continued)



**Puerto Rico Department of Education**  
*(An Executive Agency of the Commonwealth of Puerto Rico)*  
Section 1 – Schedule of Expenditures of Federal Awards  
Fiscal Year Ended June 30, 2011

<b>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</b>	<b><u>Federal CFDA Number</u></b>	<b><u>Pass-Through Entity Identifying Number</u></b>	<b><u>Federal Expenditures</u></b>
<b>Education Technology State Grants Cluster:</b>			
Education Technology State Grants	84.318		6,252,575
Education Technology State Grants, Recovery Act	84.386		3,112,910
<b>Special Education - Technical Assistance and Dissemination to</b>			
Improve Services and Results for Children with Disabilities	84.326		51,651
Grants to States for Incarcerated Youth Offenders	84.331		118,055
English Language Acquisition Grants	84.365		2,305,911
Mathematics and Science Partnership	84.366		7,574,509
Improving Teacher Quality State Grants	84.367		80,915,243
Grants for State Assessments and Related Activities	84.369		10,252,350
School Improvement Grants	84.377		10,879,272
National Assessment of Educational Progress (NAEP) Secondary	84.902		40,056
<b>Sub-total Direct Programs</b>			<u>947,839,706</u>
<b>Pass-Through Program From the Office of Governor of the Commonwealth of Puerto Rico:</b>			
<b>State Fiscal Stabilization Fund-</b>			
Education State Grants, Recovery Act	84.394	660-43-3481	161,592,981
Education Jobs Funds	84.410	660-43-3481	18,527,583
<b>Total U.S. Department of Education</b>			<u>1,127,960,270</u>
<b>U.S. Department of Health and Human Services</b>			
<b>Cooperative Agreements to Support Comprehensive School Health</b>			
Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938		105,787
<b>Corporation for National and Community Service</b>			
Learn and Serve America - School and Community Serve Program	94.004		332,937
<b>U.S. Department of Homeland Security</b>			
Public Assistance Grants	97.036		113,694
<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,348,753,609</u>

The accompanying notes are an integral part of the Schedule.



**Puerto Rico Department of Education**

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

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2011

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**1. Basis of Presentation**

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

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

**2. Clusters**

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

<u>Clusters</u>	<u>Federal Program</u>	<u>Federal CFDA Number</u>
Child Nutrition	National School Lunch Program	10.555
	Summer Food Service Program for Children	10.559
Student Financial Assistance Program	Federal Supplemental Educational Opportunity Grants	84.007
	Federal Work – Study Program	84.033
	Federal Pell Grant Program	84.063
	Academic Competitiveness Grants	84.375
Title I Grants	Title I Grants to Local Educational Agencies	84.010
	Title I Grants to Local Educational Agencies - Recovery Act	84.389
Special Education	Special Education – Grants to States	84.027
	Special Education – Grants to States, Recovery Act	84.391
	Special Education – Preschool Grants	84.173
	Special Education – Preschool Grants, Recovery Act	84.392
Education Technology	Education Technology State Grants	84.318
	Education Technology State Grants, Recovery Act	84.386



**3. Schoolwide program funds**

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

Schoolwide programs are not separate federal programs as defined in OMB Circular A-133. Amounts used in schoolwide programs are included in the total expenditures of the program contributing the funds in the Schedule of Expenditure of Federal Awards. The following federal program amounts were expended by the PRDE in its schoolwide program:

CFDA No.	Name of Federal Program	Expenditures in the Schoolwide Fund
84.010	Title I Grants to Local Education Agencies	\$ 241,051,430
84.389	Title I Grants to Local Education Agencies, Recovery Act	25,618,609
84.367	Improving Teacher Quality State Grants	23,508,217
84.318	Education Technology State Grants	1,821,539
84.386	Education Technology State Grants, Recovery Act	764,234
84.186	Safe and Drug-Free Schools and Communities - State Grants	45,625
84.394	State Fiscal Stabilization Fund (SFSF)	99,752,063
N/A	State Fund	1,051,739,595
<b>Total Expenditure in the Schoolwide Fund</b>		<b>\$ 1,444,301,312</b>

**4. Consolidated program funds**

The Elementary and Secondary Education Act (ESEA), as amended by the No Child Left Behind Act (NCLB), allows a local educational agency (LEA), upon approval by the state education agency, to consolidate funds for the administration of one or more NCLB programs (Section 9203(a)).

The primary goal for the use of the consolidated funds is to administer the programs included in the consolidation, and for administrative activities designed to enhance the effective and coordinated use of funds under those programs.

Consolidated funds are not separate federal programs as defined in OMB Circular A-133; amounts used in consolidated funds are included in the total expenditures of the program contributing the funds in the Schedule. The following federal program amounts were expended by the PRDE in its consolidated fund:



**Puerto Rico Department of Education**  
*(An Executive Agency of the Commonwealth of Puerto Rico)*  
 Notes to the Schedule of Expenditures of Federal Awards  
 June 30, 2011

i. **Consolidated program funds** (continued)

<b>CFDA No.</b>	<b>Name of Federal Program</b>	<b>Expenditures in the Administrative Consolidated Fund</b>	
84.010	Title I Grants to Local Education Agencies	\$	35,927,520
84.367	Improving Teacher Quality State Grants		6,412,797
84.287	Twenty-First Century Community Learning Centers		758,799
84.318	Education Technology State Grants		456,289
84.186	Education Technology State Grants, Recovery Act		263,312
84.213	Even Start - State Educational Agencies		66,362
84.013	Title I Program for Neglected & Delinquent Children		3,097
<b>Total Expenditure in the Administrative Consolidated Fund</b>		<b>\$</b>	<b>43,888,176</b>



**Financial Statements**

Type of auditor's report issued on the Statement of Cash Receipts and Disbursements: **Unqualified**

**Internal control over financial reporting:**

Material weakness (es) identified? **No**

Significant deficiencies (s) identified that are not considered to be material weaknesses? **Yes**

Noncompliance material to financial statements noted? **No**

**Federal Awards**

**Internal control over major programs:**

Material weakness (es) identified? **No**

Significant deficiencies identified that are not considered to be material weaknesses? **Yes**

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? **Yes**

**Identification of major programs:**

**CFDA    Program**

- 10.550 Food Donation
- 10.558 Child and Adult Care Food Program
- Child Nutrition cluster**
- 10.559 Summer Food Service Program for Children
- 10.555 National School Lunch Program
- Student Financial Assistance Cluster**
- 84.007 Federal Supplemental Educational Opportunity Grants
- 84.033 Federal Work-Study Program
- 84.063 Federal Pell Grant Program
- 84.375 Academic Competitiveness Grants
- Title I Part A Cluster**
- 84.010 Title I Grants to Local Educational Agencies
- 84.389 Title I Grants to Local Educational Agencies, Recovery Act
- Education Technology State Grants Cluster**



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- 84.318 Education Technology State Grants
- 84.386 Education Technology State Grants, Recovery Act
- Special Education Cluster (IDEA)**
- 84.027 Special Education Grants to States
- 84.173 Special Education-Preschool Grants
- 84.391 Special Education Grants to States, Recovery Act
- 84.392 Special Education-Preschool Grants, Recovery Act
- 84.377 School Improvement Grants
- 84.394 State Fiscal Stabilization Fund (SFSF) - Education State Grant Recovery Act
- 84.366 Mathematics and Science Partnerships
- 84.367 Improving Teacher Quality State Grants
- 84.369 Grants for State Assessments and Related Activities
- 84.186 Safe and Drug-Free Schools and Communities - State Grants
- 84.048 Career and Technical Education- Basic Grants to States
- 84.287 Twenty-First Century Community Learning Centers

Dollar threshold used to distinguish between type A and type B program \$ **4,590,244**

Auditee qualified as low risk auditee? **No**



**Finding Number:** 2011-01

**Federal Agency:** U.S. Department of Education

**Category:** Compliance/ Internal Controls

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### **Criteria**

Article VI, Section 9 of the Constitution of the Commonwealth of Puerto Rico states that the use of property and public funds will be used only for public activities and for the management and operation of the institutions of the Commonwealth, and only under authority of law.

Law 230 dated July 23, 1974, as amended, known as "Accountancy Law of the Government of Puerto Rico" establishes the public policy as to the control and accounting of the public funds and property.

The following laws, among other, establish procedures and guidelines to follow in the acquisition of goods for the Commonwealth of Puerto Rico: Law 198 dated September 6, 1996; Law 42 dated August 5, 1989; Law 170 dated August 12, 1988; Law 164 dated July 23, 1974; and Law 77 dated June 25, 1974.

### **Condition**

During the year ended June 30, 2011, the PRDE charged expenditures to the General Fund program amounting to \$2,330,206,583. To test compliance with the state laws and regulations, we selected a sample of (98) charges to state funds amounting to \$110,678,118 that represents (5%) of the total population examined in our compliance test. In testing compliance and internal controls over allowability and procurement requirements for state funds, we noted the following exceptions:

1. In two (2) of the ninety-eight (98) cases (2%) examined, no quote, bids, or proposal were not provided for examination. Total unsupported costs amounted to \$2,060.

### **Effect**

The non-compliance with the policies and procedures established by PRDE could result in possible internal control deficiencies.

### **Recommendation**

The PRDE must emphasize the importance of following established policies and procedures. Therefore, the PRDE needs to improve communication between departments in order to maintain an efficient filing, tracking and retrieval of filled documents.



**Finding Number:** 2011-02

**Federal Program:** CFDA 84.010, Title I Grant to Local Educational Agencies  
CFDA 84.027, Special Education Grants to State  
CFDA 84.048, Career and Technical Education- Basic Grant to States  
CFDA 84.186, Safe and Drug Free Schools and Communities – State Grants  
CFDA 84.287, Twenty-First Century Community Learning  
CFDA 84.318, Education Technology State Grants  
CFDA 84.367, Improving Teacher Quality State Grants  
CFDA 84.386, Education Technology State Grant, Recovery Acts  
CFDA 84.394, State Fiscal Stabilization Fund

**Federal Agency:** U.S. Department of Education

**Category:** Compliance/ Internal Controls

**Compliance Requirement:** Allowable Costs/Cost Principles, Procurement, Suspension and Debarment

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#### **Criteria**

Section C (1) (j) of the OMB Circular A-87 "Factors affecting allowability of costs" establishes that to be allowable under federal awards, costs must be adequately documented.

34 CFR Sections 80.20 (b) (2), (3) and (6) establish that grantees and sub grantees must maintain records that adequately identify the source and applications of funds provided for financially assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. Effective control and accountability must be maintained for all grant and sub grant cash, real and personal property, and other assets. Accounting records must be supported by source documentation such as cancelled checks, paid bills, payroll time and attendance records, contract and sub grant award documentation, etc.

34 CFR Sections 80.42 (a) and (b) establish that all financial and programmatic records, supporting documents, statistical records, and other records of grantees and sub grantees are required to be maintained by the terms of this part, program regulations or the grant agreement, or otherwise reasonably considered pertinent to program regulations or the grant agreement. Except as otherwise provided, records must be retained for three years.

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

ARRA, Section 1554, Special Contracting Provisions. To the maximum extent possible, contracts funded under this Act shall be awarded as fixed-price contracts through the use of competitive procedures. A summary of any contract awarded with such funds that is not fixed-price and not awarded using competitive procedures shall be posted in a special section of the website established in section 1526.



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In testing compliance and internal control over allowability, period of availability and procurement and suspension and debarment requirement, we selected 1,322 disbursements from the programs distributed as follows:

<b>Program</b>	<b>CFDA No.</b>	<b>Items tested</b>	<b>Sample Dollar Amount</b>
State Fiscal Stabilization Fund	84.394	59	\$ 34,801,363
Title I, Part A Cluster	84.010, 84.389	90	63,583,232
Student Financial Assistance Cluster	84.007, 84.375	120	237,658
	84.063, 84.033		
Education Technology State Grant Cluster	84.318, 84.386	142	4,731,129
Child Nutrition Cluster	10.559, 10.555	25	68,735,433
Special Education Cluster	84.027, 84.173,	120	14,594,418
	84.391, 84.392		
Mathematics and Science Partnerships	84.366	96	6,053,161
Twenty-First Century Community Learning Centers	84.287	90	13,262,418
Child and Adult Care Food Program	10.558	92	4,262,354
Career and Technical Education-Basic Grant to States	84.048	88	313,786
Improving Teacher Quality States Grant	84.367	98	16,033,377
Grants for State Assessments and Related Activities	84.369	12	10,252,350
School Improvement Grants	84.377	96	7,621,894
Safe and Drug Free Schools and Communities-State Grants	84.186	94	4,736,358
Schoolwide Plan	N/A	100	1,953,394
		<b>1322</b>	<b>\$ 251,172,325</b>

The legend of the exceptions and instances of noncompliance noted is as follows:

**Attribute    Condition**

- A. No procurement supporting documents were available for examination.
- B. No quote, bids, or proposal was available for examination.
- C. Bid was awarded to highest bidder.

The exceptions mentioned above are the result of a) deficiencies of the filing system and retrieval which do not provide for immediate identification of payment documents; and (b) the failure to implement adequate internal control procedures, such as thorough managerial review, which should detect and correct, on a timely basis, instances where controls are not being followed. The exceptions noted under each federal program during the performance of our tests were as follows:



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**Condition (continued)**

**CFDA 84.010, 84.389 Title I, Part A Cluster**

Voucher Number	Voucher Date	Amount	A	B	C	Questioned Costs
207275	9/10/2010	\$ 2,474	X	X		\$ 2,474
226581	12/2/2010	834	X	X		834
235042	1/12/2011	19,967	X	X		19,967
251517	3/23/2011	4,732	X	X		4,732
						<b>\$ 28,006</b>

**CFDA 84.318, 84.386 Education Technology State Grant, Cluster**

Voucher Number	Voucher Date	Amount	A	B	C	Questioned Costs
226902	12/2/2010	\$333,000			X	\$ 34,040
207767	9/13/2010	68,068			X	12,880
216343	10/18/2010	2,969			X	920
223177	11/16/2010	313			X	1,340
225931	11/30/2010	1,935			X	1,935
264046	5/9/2011	45,000			X	4,600
11AP1140	7/13/2010	2,982	X	X		2,982
226898	12/2/2010	567,000			X	57,960
226829	10/22/2010	49,995	X	X		49,995
244604	12/22/2010	20,586	X	X		20,586
232524	10/28/2010	12,381	X	X		12,381
239928	10/29/2010	14,448	X	X		14,448
264074	5/9/2011	117,000			X	11,960
						<b>\$ 226,027</b>

**CFDA 84.287 Twenty-First Century Community Learning Centers**

Voucher Number	Voucher Date	Amount	A	B	C	Questioned Costs
215828	10/15/2010	\$ 738	X	X		\$ 738
220956	11/5/2010	2,355	X	X		2,355
220651	11/5/2010	651	X	X		651
220977	11/5/2010	2,561	X	X		2,561
220686	11/5/2010	468	X	X		468
224650	11/22/2010	7,282	X	X		7,282
230080	12/14/2010	1,082	X	X		1,082
						<b>\$ 15,137</b>



**Aquino, De Córdova, Alfaro & Co., LLP**

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

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**CFDA 84.027, 84.391, 84.173, 84.392 Special Education Cluster (IDEA)**

Voucher Number	Voucher Date	Amount	A	B	C	Questioned Costs
215368	10/13/2010	\$ 6,903	X	X		\$ 6,903
252186	3/26/2011	3,100	X	X		3,100
233504	12/27/2010	2,737	X	X		2,737
238283	1/27/2011	524	X	X		524
214447	10/7/2010	18,750	X	X		18,750
230859	12/16/2010	1,313	X	X		1,313
233569	12/27/2010	6,038	X	X		6,038
11AP8333	8/23/2010	1,427	X	X		1,427
238673	1/28/2011	427	X	X		427
216139	10/18/2010	2,390	X	X		2,390
225097	11/24/2010	5,211	X	X		5,211
218285	10/27/2010	1,244	X	X		1,244
233733	12/28/2010	2,214	X	X		2,214
233738	12/28/2010	4,412	X	X		4,412
243156	2/15/2011	95	X	X		95
233527	12/27/2010	3,158	X	X		3,158
214423	10/7/2010	2,868	X	X		2,868
236397	1/19/2011	868	X	X		868
<b>\$</b>						<b>63,678</b>

**CFDA 84.048 Careers and Technical Education- Basic Grant to States**

Voucher Number	Voucher Date	Amount	A	B	C	Questioned Costs
249451	3/15/2011	\$236	X	X		\$236
222509	11/12/2010	3,617	X	X		3,617
214180	10/6/2010	505	X	X		505
<b>\$</b>						<b>4,358</b>

**CFDA 84.367 Improving Teachers Quality**

Voucher Number	Voucher Date	Amount	A	B	C	Questioned Costs
211486	9/27/2010	\$1,564	X	X		\$ 1,564
222946	11/16/2010	8,690	X	X		8,690
<b>\$</b>						<b>10,253</b>



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**CFDA 84.186 Safe and Drug Free Schools and Communities- State Grants**

Voucher Number	Voucher Date	Amount	A	B	C	Questioned Costs
239963	2/2/2011	\$80,458	X	X		\$ 80,458
233386	12/27/2010	1,398	X	X		1,398
						<u>\$ 81,856</u>

**Schoolwide<sup>1</sup>**

Voucher Number	Voucher Date	Amount	A	B	C	Questioned Costs
203522	8/17/2010	\$ 5,400	X	X		\$ 5,400
207714	9/13/2010	5,520	X	X		5,520
210291	9/22/2010	9,750	X	X		9,750
217317	10/21/2010	66,710	X	X		66,710
218752	10/28/2010	49,981	X	X		49,981
236601	1/20/2011	14,987	X	X		14,987
238828	1/20/2011	43,350	X	X		43,350
240012	1/31/2011	21,990	X	X		21,990
240022	2/3/2011	34,500	X	X		34,500
240951	2/7/2011	41,896	X	X		41,896
11AP1185	7/13/2010	31,500	X	X		31,500
						<u>\$ 325,584</u>

Schoolwide programs are not separate federal programs as defined in OMB Circular A-133; to determine the questioned costs, expenditures will be allocated back to their original source of funds as follows:

<sup>1</sup> Schoolwide Program is not separate federal program as defined in OMB Circular A-133. This fund combines State and Federal funds to upgrade the entire educational program in a Title I school. Refer to note 4 of the notes to the schedule of expenditures of federal awards for more detail.



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<b>CFDA No.</b>	<b>Fund/Program</b>	<b>Amount</b>
N/A	State Funds	\$ 228,290
84.010	Title I Grants to Local Agencies	40,786
84.186	Safe and Drug Free Schools and Communities - Sta	241
84.318	Education Technology State Grant	633
84.367	Improving Teachers Quality	2,379
84.386	Education Technology State Grant, Recovery Acts	1,558
84.389	Title I Grants to Local Agencies, Recovery Acts	51,324
84.394	State Fiscal Stabilization Fund Program	373
		<u>\$ 325,584</u>

**Effect**

The above conditions could result in the reimbursement of federal funds to the grantors for those disbursements not properly supported nor authorized by the corresponding grantors representatives.

Also, the lack of evidence of competitive bidding and/or quotes could result in possible material weaknesses. Therefore, grantor could disallowed future awards.

**Questioned costs<sup>2</sup>**

<b>CFDA</b>	<b>Program</b>	<b>Amount</b>
84.010	Title I Grants to Local Agencies	\$ 68,792
84.027	Special Education Grants to States	63,678
84.048	Career and Technical Education- Basic Grant to States	4,358
84.186	Safe and Drug Free Schools and Communities - State Grants	82,097
84.287	Twenty-First Century Community Learning Centers	15,137
84.318	Education Technology State Grant	59,330
84.367	Improving Teachers Quality	12,632
84.386	Education Technology State Grant, Recovery Acts	168,888
84.389	Title I Grants to Local Agencies, Recovery Acts	51,324
84.394	State Fiscal Stabilization Fund Program	373
	<b>Total questioned costs</b>	<u>\$ 526,609</u>

**Recommendation**

<sup>2</sup> Schoolwide programs are not separate federal programs as defined in OMB Circular A-133; to determine the questioned costs, expenditures will be allocated back to their original source of funds. The unsupported amount paid with federal funds will be questioned.



We recommend the PRDE to maintain adequate documentation to support the allowability of its expenditures. PRDE shall improve its internal control over the filing and safeguarding of documents in order to easily identify and retrieve bids, quotes and/or proposals.

**Finding Number:** 2011-03

**Federal Program:** CFDA 10.555, National School Lunch Program  
CFDA 84.010, Title I Grant to Local Educational Agencies  
CFDA 84.027, Special Education- Grants to States  
CFDA 84.048, Vocational Education – Basic Grants to States  
CFDA 84.318, Education Technology State Grants  
CFDA 84.367, Improving Teachers Quality  
CFDA 84.386, Education Technology State Grants, Recovery Act  
CFDA 84.389, Title I Grant to Local Educational Agencies, Recovery Act  
CFDA 84.394, State Fiscal Stabilization Fund, Recovery Act  
CFDA 84.410, Education Jobs Funds

**Federal Agency:** U.S. Department of Education

**Category:** Compliance/ Internal Controls

**Compliance Requirement:** Activities Allowed or Unallowed, Allowable Costs/Cost Principles

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**Criteria**

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

34 CFR Sections 80.20 (a) and (b) (1) to (3) establish that:

1. A state must expend and account for grant funds in accordance with state laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the state, as well as those of its sub grantees and cost-type contractors, must be sufficient to:
  - a. Permit the preparation of reports required by this part and the statutes authorizing the grant, and
  - b. permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.
  
2. The financial management systems of the grantees and sub grantees must meet the following standards:
  - a. Financial reporting – Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub grant.



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- b. Accounting records – Grantees and sub grantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

**Criteria (continued)**

OMB Circular A-87, Attachment A ( C ) 4a, states that applicable credits for receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect cost, shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate. Examples of such transactions are: purchase discounts, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments for overpayments or erroneous charges.

**Condition**

As part of our audit procedures, we obtained a list of the accounts receivable originated during fiscal year ended June 30, 2011, distributed as follows:

CFDA	Fund/Program	Original Amount	Amount collected during fiscal year 2011	Balance as of June 30, 2011
	State Funds			
N/A	General Fund	\$ 9,195,743	\$ 1,176,879	\$ 8,018,864
	Federal funds			
10.555	National School Lunch Program	178,392	17,202	161,190
84.010	Title I Grants to Local Agencies	297,782	62,326	235,456
84.027	Special Education- Grants to State	7,248	1,477	5,771
84.048	Vocational Education - Basic Grants to States	2,350	-	2,350
84.318	Education Technology State Grant	1,829	414	1,415
84.367	Improving Teachers Quality	27,229	7,256	19,973
84.386	Education Technology State Grant, Recovery Acts	505	114	391
84.389	Title I Grants to Local Agencies, Recovery Acts	17,414	3,942	13,472
84.410	Education Jobs Funds	49,264	47,216	2,048
84.394	State Fiscal Stabilization Fund Program	87,868	19,892	67,976
		669,881	159,839	510,042
	<b>Total</b>	<b>\$ 9,865,624</b>	<b>\$ 1,336,718</b>	<b>\$ 8,528,906</b>



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Accounts receivable arise from overpayments or merchandise returns to suppliers, improper salary payments, payments to employees without accumulated vacation or sick leave balances, and others. Accounts receivable are recorded in a subsidiary ledger when identified. However, the expenditures in the related funds are reversed when receivables are collected. Accordingly, expenditures reported in the federal financial assistance programs include unallowable costs corresponding to receivables remaining uncollected at the end of each year.

**Effect**

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

**Questioned costs<sup>3</sup>**

10.555	National School Lunch Program	161,190
84.010	Title I Grants to Local Educational Agencies	235,456
84.027	Special Education- Grants to States	5,771
84.048	Vocational Education - Basic Grants to States	2,350
84.318	Education Technology State Grant	1,415
84.367	Improving Teacher Quality State Grants	19,973
84.386	Education Technology State Grant, Recovery Act	391
84.389	Title I Grants to Local Educational Agencies, Recovery Act	13,472
84.410	Education Jobs Funds	2,048
84.394	State Fiscal Stabilization Funds	67,976
	<b>Total questioned costs</b>	<u>\$ 510,042</u>

**Recommendation**

The PRDE has acknowledged the recurring finding from preceding years. The policies and procedures were implemented to reduce the likelihood of overpayments to employees. However, although overpayments to employees are eventually detected and corrected there are controls missing to prevent these from occurring. We recommend that the PRDE shall improve the preventive controls over payroll payments to avoid disallowances from the grantors. Specifically, PRDE shall direct the school's principals, region supervisor's and those in charge with approval of payroll payments to update the information promptly to avoid and/or reduce the occurrences of overpayments.

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<sup>3</sup> Amount uncollected as of June 30, 2011 as result of the overpayments paid with federal funds will be questioned.



**Finding Number:** 2011-04

**Federal Program:** CFDA 84.027, Special Education- Grants to States  
CFDA 84.173, Special Education- Preschool Grants

**Federal Agency:** U.S. Department of Education

**Category:** Compliance/ Internal Controls

**Compliance Requirement:** Eligibility

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### **Criteria**

The individual with Disabilities Education Act (Public Law No. 105-17) establishes the eligibility requirements for the beneficiaries of this program. In general, children with disability means a child: a) aged 3 through 21 experiencing developmental delays, as measured by appropriate diagnostic instruments and procedures, in one or more of the following areas: physical development, cognitive development, communication development, social or emotional development, or adaptive development; and who, by reason thereof, needs special education and related services; and/or b) with mental retardation, hearing impairments (including deafness), speech or language impairments, visual impairments (including blindness), serious emotional disturbance, orthopedic impairments, autism, traumatic brain injury, other health impairments, or specific learning disabilities; and who, by reason thereof, needs special education and relative services.

### **Condition**

Total expenditures for the Special Education Program Cluster during the year ended June 30, 2011 amounted to \$195,506,407. In testing compliance with the requirements related to the eligibility for individuals of the program, we selected a random sample of 126 participants from the lists provided for each school selected. The Child Count Report Raw Data submitted by the PRDE shows 121,338 participants.

From 126 files selected for testing, the following instances of non-compliance were noted:

1. Fifteen (15) participant's files selected (12%) were not available for examination.
2. Seven (7) of the participant's files tested (6%) did not include proof that birth certificate was examined. Accordingly, the requirement related to age less than twenty-one could not be determined. Also, we were not able to determine if the student required form I-20 because of "for foreign participants".
3. Three (3) of the participant's files tested (3%) did not include form SAEE-01 (B) "Referral for Registration."
4. One (1) of the participant's files tested (1%) did not include form SAEE-01 (F) "Registration Form".



5. Two (2) of the participant's files tested (2%) did not include form SAEE-06 "Invitation for Meeting for the Development of Individualized Education Program (PEI)."
6. Thirteen (13) of the participant's files tested (12%) did not include form SAEE-07 "Notice of Children School Location."
7. One (1) of the participant's files tested (1%) did not include form SAEE- 09 "Analysis of the Information Available (Re-evaluation).
8. One (1) of the participant's files tested (1%) did not include form SAEE-15 "Registration for People who Request Access to the Students File".
9. One (1) of the participant's files tested (1%) did not include form SAEE-PEI "Individual Education Program".
10. Eighteen (18) of the participant's files tested (16%) did not have Individualized Education Program (PEI) form signed by the school director.
11. Eight (8) of the participant's files tested (7%) did not have a Certificate of Immunization.
12. Forty-two (42) of the participant's tested (38%) were not located at the school as registered in the SEASWEB special education system. Participants' information has not been updated on a timely basis.

### **Effect**

The PRDE could be exposed to administrative sanctions or costs disallowances since the information regarding the students' eligibility to participate in the program is not available or complete.

The PRDE may also be sanctioned because of the lack of documentation regarding the participant's determination of eligibility for children with specific learning disability conditions and, therefore, ineligible participants may be receiving services under the program.



**Questioned costs**

Could not be determined

**Recommendation**

We recommend the PRDE to complete the eligibility verification process for the student for whom eligibility documentation was not available for examination. Also, the PRDE shall determine any liability to the grantor for any services provided to ineligible participants resulting from the absence of appropriate verification procedures, if applicable.

Additionally, the PRDE shall consider the implementation of, among others, the following procedures to prevent the occurrence of the above situations:

- Participants' files shall be reviewed periodically to ascertain if such files include complete and current information. Teachers participating in this program shall be aware of the importance of maintaining updated records of the students and shall determine when the participant reaches the age limit of the program.
- The PRDE shall ensure that all required evaluations for each disability conditions are prepared for all the program participants. Teachers participating in this program shall be aware of the importance of: a) maintaining updated records of the students; and b) referring students whose last examination was made more than three years ago.
- Procedures required by federal statutes and regulations for evaluating children with specific learning disabilities should be communicated clearly to all relevant personnel, especially the Special Education teachers and community schools' directors.

Finally, the Child Count Report should be maintained with more accurate information. Discrepancies should be investigated and reasons properly documented.



**Finding Number:** 2011-05

**Federal Program:** CFDA 84.007 Federal Supplemental Educational Opportunity Grant  
CFDA 84.033, Federal Work- Study Program  
CFDA 84.063 Federal Pell Grant Program

**Federal Agency:** U.S. Department of Education

**Category:** Compliance/Internal Controls

**Compliance Requirement:** Special Tests and Provisions - Verification

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### **Criteria**

34 CFR Section 668.53 states that the institution shall establish policies and procedures for verifying information contained in a student aid application.

34 CFR Section 668.56 states that an institution shall require an applicant selected for verification under sections 668.54 (a) (2) or (3) to submit acceptable documentation described in section 668.57 that will verify or update some information used to determine the applicants' EFC, except as provided by paragraphs (b),(c),(d) and (e) of this section.

34 CFR 668.57 states the acceptable documentation required to the applicant if selected for verification. The documentation the institution will verify is the: Adjusted Gross Income (AGI), US income tax paid, number of family members in the household, number of the household members enrolled at least half time in postsecondary educational institutions and untaxed income and benefits, as applicable.

34 CFR 668.59 states the consequences of a change in the application information as a result of the verification process.

### **Condition**

In testing compliance with the verification requirements, we randomly selected 120 participants of the Federal Pell Grant Program. While performing the eligibility test, we noted the following:

1. There were no written policies and procedures for verifying information included in a student aid application.
2. Two (2) of the participants Economic Assistance files were not available for review

### **Effect**

As a result of the conditions detailed above, PRDE may be sanctioned because of the lack of policies and procedures regarding the proper process to evaluate participant's eligibility and filing of participant's documents.



**Questioned costs**

Could not be determined

**Recommendation**

We recommend the PRDE to establish and produce written policies and procedures to verify information contained in a student aid application in order to detect and avoid errors in the balances awarded to applicants. We also recommend that PRDE shall establish policies regarding the filing system of participant data.



**Finding Number:** 2011-06

**Federal Program:** CFDA 84.007, Federal Supplemental Educational Opportunity Grant  
CFDA 84.033, Federal Work- Study Program  
CFDA 84.063, Federal Pell Grant Program

**Federal Agency:** U.S. Department of Education

**Category:** Compliance/ Internal Controls

**Compliance Requirement:** Special Tests and Provisions- Disbursements to or on behalf of students

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### **Criteria**

34 CFR Section 668.56 (e) states that whenever an institution disburses Title IV, HEA program funds by crediting a students' account and the total amount of the Title IV, HEA program funds credited exceeds the amount of tuition and fees, room and board, and other authorized charges the institution assessed the student, the institution must pay the resulting credit balance directly to the student or parent as soon as possible, but, (1) no later than 14 days after the balance occurred if the credit balance occurred after the first day of class of a payment period; or (2) no later than 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**

In testing compliance with the disbursement to or on behalf of students, we selected a random sample of one hundred and twenty (120) disbursements to participants of the Federal Pell Grant Program. While performing this test, we noted the following:

1. We noted that eleven (11) approved financial aid (9%) were in excess of amount qualified by the participant.
2. We noted that seventeen (17) approved financial aid (14%) were less than the amount qualified by the participant.

### **Effect**

The PRDE could be exposed to administrative sanctions or costs disallowances since the amounts being paid are not the correct amounts.

### **Questioned costs**

84.063 Federal Pell Grant Program \$ 2,853



**Recommendation**

We recommend the PRDE to improve their process for processing payments to participant's that would ensure that the correct amounts are being disbursed. The PRDE shall move forward and implement a new automated system that will help in the filing, tracking and accuracy of data.



**APPENDIX**  
**Corrective Action Plan and**  
**Response to Single Audit Report**

**Puerto Rico Department of Education**  
Corrective Action Plan  
Fiscal Year Ended June 30, 2011

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Finding No:	2011-01
Topic:	Allowability of Costs
Federal Program:	N/A
CFDA#:	N/A
Questioned Costs:	N/A

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**Condition Found:**

During the year ended June 30, 2011, the PRDE charged expenditures to the General Fund program amounting to \$2,330,206,583. To test compliance with the state laws and regulations, the auditors selected a sample of (98) charges to state funds amounting to \$110,678,118 which represented (5%) of the total population examined. In testing compliance and internal controls over allowability and procurement requirements for state funds, they noted the following exceptions:

1. In two (2) of the ninety-eighth (98) cases (3 %) examined, no quote, bids, proposal or contract were provided for examination. Total unsupported costs amounted to \$2,060.

**PRDE Response to Finding:**

PRDE agrees with the auditor's statement, at the time of the audit these documents were not available for review.

**Responsible Person:** Elsie Maldonado, Procurement Office Director

**Puerto Rico Department of Education**

Corrective Action Plan

Fiscal Year Ended June 30, 2011

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<b>Finding No:</b>	2011-02
<b>Topic:</b>	Allowability of Costs/Cost Principles, Procurement, Suspension and Debarment
<b>Federal Program:</b>	Title I Grant to Local Educational Agencies Special Education Grants to State Career and Technical Education – Basic Grant to States Safe and Drug Free Schools and Communities – State Grants Twenty-First Century Community Learning Education Technology State Grants Improving Teacher Quality State Grants Education Technology State Grant, Recovery Acts State Fiscal Stabilization Fund
<b>CFDA#:</b>	84.010, 84.027, 84.048, 84.186, 84.287, 84.318, 84.367, 84.386, 84.394
<b>Questioned Costs:</b>	\$526,609

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**Condition Found:**

In testing compliance and internal control over allowability, procurement and suspension and department requirements, the auditors selected disbursements from various programs and three exceptions were noted:

- A. No procurement supporting documents were available for examination.
- B. No quote, bids, or proposal was available for examination.
- C. Bid was awarded to highest bidder.

**PRDE Response to Finding:**

PRDE agrees with the auditor's statement, at the time of the audit these documents were not available for review. The auditor stated in the finding three exceptions related to the procurement process, specifically the section related to the selection of a vendor. They stated that these documents were not available for them to review. PRDE acknowledge that the exceptions arose because the documentation was misfiled and it could not be located at the time of the audit. PRDE would like to emphasize that none of the exceptions were related to unallowable costs or unallowable activities, therefore PRDE does not agree with the questioned costs.

In order to authenticate the disbursements made by PRDE and included within the auditor's finding, PRDE has reviewed 61% of the items in the finding and for all of them, PRDE has located the receiving reports kept on the payment voucher files. The receiving report is the evidence kept on file to confirm that the goods have been delivered in good and/or working condition, or the services have been received satisfactorily, providing thus, adequate evidence that the disbursement made to the vendor was properly authorized. With this documentation PRDE can validate that the disbursements made were for goods and/or

**Puerto Rico Department of Education**  
Corrective Action Plan  
Fiscal Year Ended June 30, 2011

services received by the agency and the exact location of the items can be identified. The 61% mentioned above represents \$398,687 of the total amount of questioned costs on this finding.

**Responsible Person:** Elsie Maldonado, Procurement Office Director

**Puerto Rico Department of Education**  
Corrective Action Plan  
Fiscal Year Ended June 30, 2011

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<b>Finding No:</b>	2011-03
<b>Topic:</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
<b>Federal Program:</b>	National School Lunch Program Title I Grant to Local Educational Agencies Special Education - Grants to States Education Technology State Grants Improving Teacher Quality Education Technology State Grant, Recovery Acts Title I Grant to Local Educational Agencies, Recovery Act State Fiscal Stabilization Fund, Recovery Act
<b>CFDA#:</b>	10.555, 84.010, 84.027, 84.318, 84.367, 84.386, 84.389, 84.394
<b>Questioned Costs:</b>	\$510,042

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**Condition Found:**

In testing compliance and internal control over allowability of costs, the auditors obtained a list of the accounts receivable originated during fiscal year ended June 30, 2011. Based on their review, the auditors stated that accounts receivable arose from overpayments or merchandise returns to suppliers, improper salary payments, and payments to employees without accumulated vacation or sick leave balances, and others. Accounts receivable are recorded in a subsidiary ledger when identified. However, the expenditures in the related funds are reversed when receivables are collected. Accordingly, expenditures reported in the federal financial assistance programs include unallowable costs corresponding to receivables remaining uncollected at the end of each year.

**PRDE Response to Finding:**

PRDE agrees with the auditor's statement in this finding. PRDE would like to emphasize that additional controls are being implemented with the purpose of reducing the improper salary payments to its employees, and therefore reduce the balance of its accounts receivables on this regard. On October 2010, the Holding Payment System started to be implemented at each School Region Human Resource Office throughout the Island. School Directors report school employees' absences directly to the regional offices whose designated personnel place a hold on future payments through the system. As of June 30, 2011, this system was not fully operating, since installation was in process at some regions. By December 2011, all of the School Regions were utilizing the system.

**Responsible Person:** Judith Parrilla, Account Receivable Supervisor

**Puerto Rico Department of Education**  
Corrective Action Plan  
Fiscal Year Ended June 30, 2011

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Finding No:	2011-04
Topic:	Eligibility
Federal Program:	Special Education Grants to States Special Education-Preschool Grants
CFDA#:	84.027, 84.173
Questioned Costs:	Could not be determined

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**Condition Found:**

Total expenditures for the Special Education Program Cluster during the year ended June 30, 2011 amounted to \$195,506,407. In testing compliance with the requirements related to the eligibility for individuals of the program, the auditors selected a random sample of 126 participants from the lists provided for each school selected and various exceptions were noted.

**PRDE Response to Finding:**

The Special Education Program does not agree with this finding. Please find below our responses for each condition mentioned in the auditor's finding:

1. Fifteen (15) participant's files selected (12%) were not available for examination.

It is our understanding that a couple of months lapsed between the date the auditors made their selection and the date that they actually visited the school. The above resulted because the enrollment status of the special education program's participants is constantly changing. To prevent this condition to occur in the future, the auditors should select their sample with a few days of anticipation before their site visits take place.

2. Seven (7) of the participant's files tested (6%) did not include proof that birth certificate was examined. Accordingly, the requirement related to age less than twenty-one could not be determined. Also, we were not able to determine if the student required form I-20 because of "for foreign participants".

The Memorandum of March 27, 2008; "Protection of documents, preventive measures and actions to take before the theft of academic records or personal information of students with the purpose of giving guidelines to follow to prevent identity theft" indicates that as of August 2008 as measure to prevent the theft of identity of students, once the enrollment data has been corroborated and the students get officially enrolled at a school, the original documentation used for these purposes, such as the birth certificate and social security card are returned the same day to the student's parents and not retained at the school. Currently, PRDE does not have any internal control in place that requires that a proof of this verification gets documented and kept in the students' files.

**Puerto Rico Department of Education**  
Corrective Action Plan  
Fiscal Year Ended June 30, 2011

3. Three (3) of the participant's files tested (3%) did not include form SAEE-01 (B) "Referral for Registration."
4. One (1) of the participant's files tested (1%) did not include form SAEE-01 (F) "Registration Form".
5. Two (2) of the participant's files tested (2%) did not include form SAEE-06 "Invitation for Meeting for the Development of Individualized Education Program (PEI)."

For conditions 3, 4 and 5 above, PRDE would need additional information from the auditor in order to be able to respond. Such information was not available at the time of this report; therefore, we cannot provide additional comments.

6. Thirteen (13) of the participant's files tested (12%) did not include form SAEE-07 "Notice of Children School Location."

This form became official during 2005. The records identified in the sample for these 13 cases are prior to 2005, therefore those were not required to have this form on file.

7. One (1) of the participant's file tested (1%) did not include form SAEE- 09 "Analysis of the Information Available (Re-evaluation).

PRDE has available the necessary information to respond on this. This information will be available for review upon request.

8. One (1) of the participant's files tested (1%) did not include form SAEE-15 "Registration for People who Request Access to the Students File".
9. One (1) of the participant's file tested (1%) did not include form SAEE-PEI "Individual Education Program".

For conditions 8 and 9 above, PRDE would need additional information from the auditor in order to be able to respond. Such information was not available at the time of this report; therefore, we cannot provide additional comments.

10. Eighteen (18) of the participant's files tested (16%) did not have Individualized Education Program (PEI) form signed by the school director.

According to guidelines provided by providers of technical assistance through the Federal Department of Education, the requirement of law is that it is signed by an official with authority to enforce it as it is a supervisor of area, social worker, Director of Service Center, etc., not only the School Director.

**Puerto Rico Department of Education**

**Corrective Action Plan**

**Fiscal Year Ended June 30, 2011**

11. Eight (8) of the participant's files tested (7%) did not have a Certificate of Immunization.

The vaccination certificate is not handled as part of the special education program; however, can refer to the attention that if a student graduates this document is returned to the student.

12. Forty-two (42) of the participant's tested (38%) were not located at the school as registered in the SEASWEB special education system. Participants' information has not been updated on a timely basis.

It is our understanding that a couple of months lapsed between the date the auditors made their selection and the date that they actually visited the school. The above resulted because the enrollment status of the special education program's participants is constantly changing. To prevent this condition to occur in the future, the auditors should select their sample with a few days of anticipation before their site visits take place.

**Responsible Person:** Johan Serrano, Assistant Secretary, Special Education Program

**Puerto Rico Department of Education**  
Corrective Action Plan  
Fiscal Year Ended June 30, 2011

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<b>Finding No:</b>	2011-05
<b>Topic:</b>	Special Tests and Provisions - Verification
<b>Federal Program:</b>	Federal Supplemental Educational Opportunity Grant Federal Work – Study Program Federal Pell Grant Program
<b>CFDA#:</b>	84.007, 84.033, 84.063
<b>Questioned Costs:</b>	Could not be determined

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**Condition Found:**

In testing compliance with the verification requirements, we randomly selected 120 participants of the Federal Pell Grant Program. While performing the eligibility test, we noted the following:

1. There were no written policies and procedures for verifying information included in a student aid application.
2. Two (2) of the participants Economic Assistance files were not available for review.

**PRDE Response to Finding:**

PRDE does not agree with this finding. There is a written Procedure Manual for Verification that was effective during the period under audit. PRDE is updating the Manual, in accordance with the Student Financial Assistance laws and regulations, currently applicable.

With regards to the two missing files, PRDE has located them and will have them available for review upon request.

**Responsible Person:** Ivette Rodríguez, Assistant Director, PR Technology Institutes

**Puerto Rico Department of Education**

Corrective Action Plan

Fiscal Year Ended June 30, 2011

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Finding No:	2011-06
Topic:	Special Tests and Provisions- Disbursements to or on behalf of students
Federal Program:	Federal Supplemental Educational Opportunity Grant Federal Work – Study Program Federal Pell Grant Program
CFDA#:	84.007, 84.033, 84.063
Questioned Costs:	\$ 2,853

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**Condition Found:**

In testing compliance with the disbursement to or on behalf of students, the auditors selected a random sample of one hundred and twenty (120) disbursements to participants of the Federal Pell Grant Program. While performing this test, they noted the following:

1. That eleven (11) approved financial aids (9%) were in excess of amount qualified by the participant.
2. That seventeen (17) approved financial aids (14%) were less than the amount qualified by the participant.

**PRDE Response to Finding:**

As deemed necessary, PRDE will re-train its employees on how to comply with the requirements of properly computing the disbursements made on behalf of students. In order to increase its efficiency and effectiveness, PRDE is also looking forward to automate some of the processes within the Student Financial Assistance Program. This automation will reduce the time necessary to compute the credit balances to be paid to the students, when applicable, and also will reduce any possible human errors in the calculation of such balances.

**Responsible Person:**

**Ivette Rodríguez  
Assistant Director  
Puerto Rico Technology Institute**

**APPENDIX**  
**Auditors' Rebuttals to PRDE Audit**  
**Findings Responses**

Puerto Rico Department of Education  
(an Executive Agency of the Commonwealth of Puerto Rico)  
Auditors Rebuttals to PRDE Audit Findings

<u>Finding</u>	<u>Auditors rebuttals</u>
2011-01	None
2011-02	None
2011-03	None
2011-04	We have consider PRDE's response and planned corrective action plan. However the response to this finding does not change the condition on our recommendation
2011-05	None
2011-06	None



**Aquino, De Córdova, Alfaro & Co., LLP**

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

**APPENDIX**  
**Summary Schedule of Prior Year**  
**Audit Findings**

COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF EDUCATION  
Summary Schedule of Prior Year Findings  
YEAR ENDED JUNE 30, 2011

Finding Number	Finding repeated in 2011	Finding (Condition Found)	CFDA Number	Questioned Cost	Status	Management Corrective Action Plan
10-01		<p>During the year ended June 30, 2010, PRDE charged expenditures to General Fund program amounting to \$2,277,790,332. To test compliance with the state laws and regulations, the auditors selected a sample of ninety-eight (98) disbursements charges to state funds amounting to \$235,857,765 that represents (10.3%) of the total population. In testing compliance and internal controls over allowability and procurement requirements for state funds, the auditors noted the following exceptions:</p> <ol style="list-style-type: none"> <li>In twenty (20) of the cases examined (20.4% of total sample tested), no procurement documents were provided for examination.</li> <li>In six (6) of the cases examined (6.1% of total sample tested), no quote, bids, proposal or contract were provided for examination.</li> <li>In seven (7) of the cases examined (7.1% of total sample tested), no disbursement supporting documents were provided for examination.</li> <li>In one (1) of the cases examined (1% of total sample tested), no supporting invoice was provided for examination.</li> </ol>	Not applicable	None	Partially Completed	PRDE agrees with the auditor's statement and has carried all its efforts to gather the documentation reported as missing by the auditor. Unfortunately, we have not been able to locate the required documentation. PRDE has been reinforcing its filing procedures in order to ensure the prompt location of every document requested.
10-02		<p>In testing compliance and internal control over allowability, procurement and suspension, and department requirements, the auditors selected disbursements from various programs and some exceptions were noted.</p>	84.010, 84.027, 84.048, 84.287, 84.318 84.386, 84.389, 84.394	\$ 286,706	Partially Completed	PRDE partially agrees with the auditor's statement in the fact that at the time of the audit these documents were not available for review. However, PRDE carried out all its efforts to gather the documentation reported as missing by the auditor, and has submitted to USDE for review. Of the total questioned cost, PRDE submitted to the USDE on June 10, 2011, 85.4% of the evidence not reviewed during the audit process by the external auditors, representing \$244,880.
10-03		<p>As part of the auditors procedures, accounts receivable originated during fiscal year ended June 30, 2010 were evaluated. Accordingly, expenditures reported in the federal financial assistance program include unallowable costs corresponding to receivables remaining uncollected at the end of the fiscal year</p>	84.010, 84.027, 84.048, 84.213, 84.287, 84.318, 84.366, 84.386, 84.389, 84.394	1,070,895	Partially Completed	PRDE has developed internal procedures to determine the existence of such account receivables and to make all the necessary efforts to collect them. Annually, PRDE conducts efforts to collect these balances and prepare the necessary adjustments. PRDE will continue with such efforts.
10-04		<p>During the auditor's test over disbursement and subrecipient monitoring, they noted five (5) subrecipients that submit original proposals amounting to \$175,003, each; amended proposals were subsequently submitted with an increase of costs of \$83,683, each. Nevertheless, the services to be provided or amount of participants were not amended. One of the five amended proposals included cost for 400 manuals even though the proposal was designed for 300 participants. The PRDE was not able to provide evidence on whether the increase in the costs of the services to be received as part of the proposals, were in accordance with the relative benefits to be received.</p>	84.186	Could not be determined	Partially Completed	PRDE is carrying out all the effort needed to locate the evidence reported as missing by the auditor in order to demonstrate the benefits mentioned.

To determine compliance with the cash management agreement, the auditors requested the positions of funds for a sample of transactions for each major program selected for testing. The sample consisted of one hundred and nine (109) items with dollar value of \$208,726,106. After performing the cash management test the auditors noted the following:

- \* In three (3) of the one hundred and nine (109) position of funds examined (2.8%), the request to Federal Government was submitted before the disbursement was realized.

84,010,  
10,558

Could not be  
determined

Completed

PRDE understands the importance of implementing procedures and controls to ensure that requests of funds made to the Federal Government are performed after disbursements are processed.

Through the Early Warning System, federal programs maintain control of the invoicing process upon the services provided and has been able to identify an effective and efficient use of federal funds. This process has provided the receipt of a significant amount of invoices during the last quarter of the grant term, allowing PRDE to process invoices in a reasonable amount of time. Therefore, vendors/suppliers receive their disbursement before PRDE request funds to the Federal Government.

The effectiveness of the implementation of the Early Warning System is validated when analyzing PRDE's Single Audit 2010, Cash Management finding. The external auditors stated in finding 2010-05, that in only three (3) instances of their examination of the petition of funds, the request of funds to the Federal Government were submitted before respective disbursements were processed.

Therefore, when comparing the external auditor's statement from Cash Management finding from Single Audit 2009, which states that forty-nine (49) petition of funds were requested before respective disbursements were processed, PRDE is aware that the implementation of the Early Warning Systems has proven to be an effective tool.

Total expenditures for the Special Education Program Cluster during the year ended June 30, 2010 amounted to \$114,361,110. In testing compliance with the requirements related to the eligibility for individuals of the program, the auditors selected a random sample of 126 participants from the lists provided for each school selected. The Child Count Report Raw Data submitted by the PRDE shows 121,338 participants.

From the 126 participant's files selected, the following instances of noncompliance were noted:

1. Two (2) participant's files tested (1.6%) were not available for examination.
2. Two (2) of the participant's files included in the participants list (1.6%) were not current participants of the Special Education Program. One of them graduated three years ago. The other student was not a participant of the program; there is a regular student of the school.
3. Fifteen (15) of the participant's files tested (12.1%) did not include form SAAE-01 (B) "Referral for Registration".
4. Two (2) of the participant's files tested (1.6%) did not include form SAAE-01 (F) "Registration Form".
5. Three (3) of the participant's files tested (2.4%) did not include form SAAE-05 "Eligibility Determination".
6. Four (4) of the participant's files tested (3.2%) did not include form SAAE-06 "Invitation for Meeting for the Development of Individualized Education Program (IEP)".
7. Sixteen (16) of the participant's files tested (12.9%) did not include form SAAE-07 "Notice of Children School Location".
8. Nine (9) of the participant's files tested (7.3%) did not include form SAAE-08 "Analysis of the Information Available (Re-evaluation)".
9. One (1) of the participant's files tested (.8%) did not include form SAAE-15 "Registration for People who Request Access to the Students File".
10. Eight (8) of the participant's files tested (6.5%) did not include form SAAE-PE1 "Individual Education Program".
11. Thirty two (32) of the participant's files tested (25.6%) did not have Individualized Education Program (IEP) form signed by the school director.
12. Thirty four (34) of the participant's tested (27.4%) were not located at the school as registered in the SEASWEB special education system. Participant's information has not been updated on a timely basis.

84,027

Could not be  
determined

Partially  
Completed

PRDE recognizes the importance of complying with all the requirements in making the appropriate use of the Federal State Grants. For this reason, PRDE has been reinforcing item filing procedures in order to ensure the prompt location of every document.

The auditors tested compliance with eligibility for individual requirements for this program by randomly selecting 120 participant's files. The auditors noted the following:

1. In thirty four (34) of the participant's files tested (28.3%), the Financial Need was calculated incorrectly.
2. In twenty (20) of the participant's files tested (16.7%), the cost of attendance was calculated incorrectly.
3. In one (1) of the participant's files tested (.8%), the ISIR correctly included two students in college, instead of one. As per the Federal Student Aid (FSA) guides, there is no tolerance for errors in non dollar items. This information required a correction to the SAR but it was not corrected.
4. In two (2) of the participant's files tested (1.7%), the enrollment form was not located in the file.
5. In one (1) of the participant's files tested (.8%), the "Hoja de Trabajo para obtención de Fondos Título IV" was not located. As a consequence, the students' financial need was not examined.
6. In one (1) of the participant's files tested (.8%), the applicants' financial need was incorrectly calculated because the cost used were not the actual cost. As per examination of the response sent by the Financial Aids Office, this student qualified for the ACG, but she did not receive this financial aid.

10-07

PRDE recognizes the importance of complying with the requirements of the SFA programs. Based on this, PRDE will provide training to the personnel in charge of the administration of these funds in order to ensure full compliance with keeping the student's file updated and available for examination. Also, the calculations made to determine the student's COA and the Financial Need, will be reviewed in order to determine whether there PRDE did not comply.

Partially  
Completed

Could not be  
determined

84,007,  
84,063,  
84,033

The auditors noted that PRDE complied with the submission of the Annual Accountability Report (Part D) for the Consolidated Annual Report for the Carl D. Perkins and Technical Education Act of 2006 (CAR) (OMB No. 1830-0669). However, they were not able to examine a sample of cells on the CAR to ascertain that the PRDE has data that support the numbers in the report.

10-08

PRDE has complied with all the reporting requirements applicable for this program. PRDE has gathered documentation to support such requirements.

Completed

Could not be  
determined

84,048

The auditors noted that during fiscal year ended June 30, 2010, funds totaling \$26,391,635 were disbursed to 150 subrecipients under the Child and Adult Care Food Program. To test compliance with the subrecipient monitoring requirements, the auditors selected fifteen (15) of the sponsoring organizations whose activities were monitored by the PRDE. Federal requirements and the PRDE's monitoring plan specify that full on-site reviews for each eligible sub-grantee will be conducted once every three years to monitor performance, administrative and financial management standards.

10-09

PRDE does not agree with this finding. As of February 2012 the sponsoring organization mentioned in the finding provided evidence that their auditors are still working in finalizing and submitting their Single Audit reports. PRDE contacted this sponsoring organization and confirmed that their Single Audit report for FY2009 has not been submitted as of this date.

Partially  
Completed

Could not be  
determined

10,568

Based on the information provided the auditors noted that one (1) of the sponsoring organizations have not issued a Single Audit Report during the last two years.

As part of the auditor's procedures to test compliance with the sub-recipient monitoring requirement, they selected fifteen (15) sub-recipients who were granted \$4,996,423 or a 26% of total funds granted. While performing their test, the Program Director, indicated that there is no tracking system to assure the timely delivery of reports. In addition, while reviewing the sub-recipients files, we noted the following:

1. In three (3) of the sub-recipients' files tested (20%), we noted that the subrecipients response to the monitories was not received on time, as required by the PRDE.
2. In two (2) of the sub-recipients' files tested (13.3%), the sub-recipient's response to the monitories was not located.
3. In one (1) of the sub-recipient's files tested (6.7%), we noted that the Financial Report for the first quarter was not received on time, as specified by the contract.
4. In eleven (11) of the sub-recipient's files tested (73.3%), we noted that the Financial Report for the second quarter was not received on time, as specified by the contract.
5. In eight (8) of the sub-recipient's files tested (53.3%), the Final Financial Report was not received on time, as specified by the contract.
6. In two (2) of the sub-recipient's files tested (13.3%), we noted that the Financial Reports were not prepared quarterly, as required by the contract. Also, in five (5) of the six (6) reports received and examined (83.3%), we noted they were not received on time.
7. In one (1) of the sub-recipient's files tested (6.7%), the Annual Programmatic Report was not located in the file, as required by the contract.
8. In two (2) of the sub-recipient's files tested (13.3%), the Report of Achievements "Informe de Logros" was not received on time, as required by the contract.
9. In nine (9) of the sub-recipient's files tested (60%), the Report of Progress "Informe de Progreso" was not received on time, as required by the contract.
10. In the only file examined that required action from the PRDE in response to an Agreed Upon Procedure performed to a sub-recipient, there was no evidence of such action.

PRDE partially disagrees with the auditor. PRDE recognizes the importance of the monitoring process to ensure that the funds granted are properly used by the sub-recipients, considering as well the importance of receiving timely corrective action plans. For this reason, the 21st Century Program compiled in providing the corresponding follow up to its sub-recipients on the matters mentioned by the auditors on their report.

84,287  
Could not be determined  
Partially Completed

10-11

The auditors visited two (2) of the six (6) storage facilities (33%) of the Child Nutrition Cluster and Food Donation Programs operated by the PRDE. During the on-site visits, the auditors evaluated the criteria and methodology used in maintaining accurate and complete records with respect to the receipt, distributor/use and inventory of donated foods, including products processed from donated foods.

During the physical inventory test to evaluate compliance requirements with accountability for commodities the auditors noted differences between the inventory records and the inventory count. In one (1) of the storage facilities they noted differences in five (5) items selected for testing.

10,550,  
10,565,  
10,559

Could not be determined

Completed

PRDE agrees with the auditor statement. The Child Nutrition Cluster and Food Donation Programs are aware of the importance of maintaining accurate and complete records with respect to the receipt, distribution, use and inventory of donated foods, including products processed from donated foods. For this reason, the School Food Authority Director developed a Procedures Manual, effective from January 2011, which indicates Food warehouse Directors, the methods to be applied in the warehouse operation in order to prevent these instances.

10-12

In testing compliance with the verification requirements, the auditors randomly selected 120 participants of the Federal Pell Grant Program. During fiscal year 2010, the amount of 3,067 students received benefits of this program.

While performing the eligibility test, the auditors noted the following:

1. In one (1) of the participant's files tested (.8%), the income included in the SAR was not correct.
2. In one (1) of the participant's files tested (.8%), the Verification Worksheet was not located.
3. In eleven (11) of the participant's files tested (9.2%), the Verification Worksheet was incomplete.
4. In one (1) of the participant's files tested (.8%), the Verification Worksheet was not signed by the applicant.
5. In two (2) of the participant's files tested (1.7%), there was a discrepancy between the Institutional Student Information Report (ISIR) or the Student Aid Report (SAR) and the Verification Worksheet related to the number of family members in the household.
6. In two (2) of the participant's files tested (1.7%), there was a discrepancy between the taxes paid as per the tax return and the SAR.

84,007,  
84,375,  
84,083,  
84,033

Could not be determined

Partially Completed

PRDE recognizes the importance of complying with the requirements of the SFA programs. Based on this, PRDE will be providing training to the personnel in charge of the administration of these funds in order to ensure full compliance with the requirement of proper safeguarding of the student's files; updated and available for examination.

In testing compliance with the special tests and provisions pertaining to Schoolwide Program requirements, the auditors selected 25 schools to determine if a) the schools participating in this program were eligible and b) the schoolwide programs included the core elements and components required.

While performing this test, the auditors noted the following:

- In one (1) of the 25 schools tested (4%), the annual evaluation of the results achieved by the schoolwide program and revision of the schoolwide plan based on that evaluation was not provided by PRDE.
- In one (1) of the 25 schools tested (4%), the comprehensive needs assessment was approved by the evaluator in the amended federal evaluation. However, the evaluator included comments that could lead to noncompliance.
- In nine (9) of the 25 schools tested (36%), the assurance of highly qualified professional teachers (HQT) as per the federal evaluation was not approved by the evaluator.
- In one (1) of the 25 schools tested (4%), the parental involvement was approved by the evaluator in the amended federal evaluation. However, the evaluator included comments that could lead to noncompliance.
- In one (1) of the 25 schools tested (4%), the additional activities to support students experiencing difficulty was approved by the evaluator in the amended federal evaluation. However, the evaluator included comments that could lead to noncompliance.
- In two (2) of the 25 schools tested (8%), the transition plans for children from pre-school to schoolwide programs were not approved by the evaluator in the federal evaluation.
- In one (1) of the 25 schools tested (4%), the transition plans for children from pre-school to schoolwide programs were approved by the evaluator in the amended federal evaluation. However, the evaluator included comments that could lead to noncompliance.
- In nine (9) of the 25 schools tested (36%), the comprehensive plan referred that for the year previous to the plan, the percentage of students below poverty levels of 40% was not compiled.

In relation with the first statement indicating that one (1) of the annual evaluation was not available for revision; PRDE agrees. The program has developed a digital platform to ensure 100% availability of the program evaluations. Such database, guarded by the Title I program provides a backup of the information gathered by evaluators and is available for further requests.

In relation with the second, fourth, fifth and seventh auditor's statement, PRDE totally disagrees. PRDE reviewed the school's annual evaluation and determined that none of the evaluator comments led to noncompliance. And as stated by the auditor in each of the mentioned statements, all of the areas were approved by the federal evaluator, with some comments. PRDE verified the comments and all were related with recommendations for improvements and none with noncompliance.

With the third auditor's statement indicating that nine (9) of the 25 schools tested the assurance of highly qualified professional teachers (HQT) as per the federal evaluation was not approved by the evaluator, PRDE disagrees. According to the intention of the Title I requirements, it is required that all teachers become Highly Qualified Teachers (HQT). However, that not all teachers are highly qualified is not a reason for refusal of a work plan. This information is useful to identify the need for training, certification or recertification in the matter to be taught, in order to bring these professionals to become highly skilled.

In relation with the sixth auditor's statement indicating that in two (2) of the 25 schools tested the transition plans for children from pre-school to schoolwide programs were not approved by the evaluator in the federal evaluation; PRDE agrees. The Title I program has reinforced its internal controls to ensure that each school complies with the program requirements.

In relation with the last auditor's statement indicating in nine (9) of the 25 schools tested the comprehensive plan referred that for the year previous to the plan, the percentage of students below poverty levels of 40% was not compiled; PRDE disagrees. Title I program did provide the auditors the socioeconomic survey data that reflected the percentage of students below poverty levels of 40% was compiled. PRDE has available for review the evidence of such socioeconomic data and date of when it was submitted to the auditors for evaluation.

84-010,  
84-389,  
84-186,  
84-287,  
84-318,  
84-386,  
84-387,  
84-394

Could not be determined

Completed

In testing compliance with the disbursement to or on behalf of students, the auditors selected a random sample of one hundred and twenty (120) disbursements to participants of the Federal Pell Grant Program.

While performing this test, the auditors noted the following:

- The auditor were not able to determine if the PRDE paid the resulting students' credit balance within fourteen (14) days after crediting the students' account because the date the student was paid was not provided.
- In four (4) of the disbursement tested (3.3%), the PRDE did not provided the cancelled check for examination. Therefore, the auditors were not able to determine if the disbursements to the students were made within the payment period or semester.
- In three (3) of the disbursement tested (2.5%), the students did not study during the second semester. We were not able to determine if the student earned more than 60% of the aid during the first semester because the information was not provided for examination.
- In fifty (50) of the disbursements tested (41.7%), the PRDE did not pay the students' resulting credit balance within the payment period or semester, as required.
- In ten (10) of the disbursements tested (8.3%), the resulting credit balance paid to the student was calculated incorrectly.

PRDE is aware of the importance of complying with the proper return of Title IV funds and has evaluated its internal process in order to be able to prepare the disbursements in an efficient and timely manner. Before, PRDE used to process the disbursements of the Title IV funds to the participating students through the following: First, the details of the students to be paid were received from the Program's Office; then, the funds were requested to the Federal Government through GS; once the funds were received and available at the PR Treasury Department the checks were issued on behalf of the student and sent to the Program's Office for them to distribute those throughout all the participating institutions. Currently, PRDE's Finance Department is issuing the payments to the students as soon as the corresponding detail is available in its administrative account. In order to be able to do so, PRDE is using its state funds, which are received from the Program's Office. Soon after, the funds are requested to the Federal Government through GS and once those are received, a check on behalf of the PRDE's administrative account is made to reimburse the previously mentioned state funds. In the near future, PRDE will be training and providing computer access to the personnel at the participating institutions in order for them to be able to register the applicable reimbursements directly into PRDE's accounting system, SIPDE. PRDE is also planning to send the prepared checks directly to the students through regular mail or paying them by direct deposit.

84-007,  
84-375,  
84-086,  
84-033

\$ 5,909

Completed

PRIDE partially agrees with the auditor's statement in the fact that at the time of the audit these documents were not available for review. However, PRIDE is carrying the necessary efforts to gather the documentation reported as missing by the auditor, and will have it available for review as soon as everything is properly completed.

In testing compliance with the Return of Title IV Funds requirement, the auditors selected a random sample of hundred and twenty (120) participants, which represents (4%) of the participants based on the list provided. From the sample selected, ten (10) students, which represent (8.3%), withdrew during fiscal year 2010.

While performing this test, the auditors noted the following:

1. In two (2) of the participant's files tested (20%), the withdrawal date in the calculation worksheet was incorrect.
2. In one (1) of the participant's files tested (10%), the percentage of Title IV aid earned by the student was determined incorrectly and the student was required to return this earned funds.
3. In one (1) of the participant's files tested (10%), the amount "Hours Schedules to Complete" of Title IV aid earned by the student was determined incorrectly and the student was paid unearned funds.
4. In one (1) of the participant's files tested (10%), the percentage of Title IV aid earned by the student was erroneous because the denominator was divided incorrectly by the numerator. Also, the completed days used were incorrect. As a consequence, the student was paid unearned funds.
5. In four (4) of the participant's files tested (40%), the withdrawal calculation worksheet was completed incorrectly.
6. In two (2) of the participant's files tested (20%), Step 4 of the withdrawal calculation worksheet was not completed.
7. In one (1) of the participant's files tested (10%), the Post-withdrawal disbursement tracking sheet was not completed.
8. In two (2) of the participant's files tested (20%), the date of school's determination that the student withdrew was not within the payment period or semester.
9. In five (5) of the participant's files tested (50%), the amount earned by the student was paid 45 days after the withdrawal date.
10. In one (1) of the participant's files tested (10%), the amount of Title IV earned by the student was calculated incorrectly and the student was not paid the total applicable earned funds.

84,007  
84,063  
84,083

Partially  
Completed

2,402

\$