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SINGLE AUDIT

**DEPARTMENT OF EDUCATION OF THE
COMMONWEALTH OF PUERTO RICO**

Year Ended June 30, 2009

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INDEPENDENT AUDITORS' REPORT

Hon. Odette Piñero
Secretary
Department of Education of the
Commonwealth of Puerto Rico
San Juan, Puerto Rico

We have audited the accompanying Statement of Cash Receipts and Cash Disbursements/ Statement of Cash Activities – Governmental Funds/ Governmental Activities (the Statement) of the Department of Education of the Commonwealth of Puerto Rico (PRDE), for the year ended June 30, 2009. These financial statements are the responsibility of the PRDE's management. Our responsibility is to express an opinion on these financial statements 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 discussed in Note 1, the Statement present only the PRDE Funds and do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2009 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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.

As described in Note 2, the PRDE has prepared the Statement using accounting reporting practices which differ from accounting principles generally accepted in the United States of America. The effects on the Statement of the variances between these accounting reporting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the Statement referred above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of each fund of the Department of Education of the Commonwealth of Puerto Rico as of June 30, 2009, or changes in its financial position for the year then ended.



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Hon. Odette Piñero
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San Juan, Puerto Rico
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In our opinion, the Statement referred to above present fairly, in all material respects, the cash receipts and cash disbursements of each fund of the Department of Education of the Commonwealth of Puerto Rico for the year ended June 30, 2009, on the basis of accounting described in Note 2.

In accordance with Government Auditing Standards we have also issued our report dated April 15, 2010, 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 and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

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, 2009, and have issued our report thereon dated April 15, 2010. Our audit was performed for the purpose of forming an opinion on the Statement taken as a whole. The accompanying Schedule of 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.



PKF, LLP

License No. 22
Expires December 1, 2010

April 15, 2010

DEPARTMENT OF EDUCATION OF THE
COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009

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, 2009. 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).

Overview of the Statement of Cash Receipts and Cash Disbursements

The annual report includes the independent auditors' report, the statement of cash receipts and disbursements, 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 cash disbursements.

Financial Analysis

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

Cash Receipts and Cash Disbursements – condensed financial information

	Year Ended June 30		Change	
	2009	2008	In dollars	Percentage
Cash Receipts:				
Commonwealth appropriations	\$ 2,547,444,831	\$ 2,514,618,485	\$ 32,826,346	1.31%
Intergovernmental – federal government	903,197,869	1,207,975,534	(304,777,665)	(25.23)%
Total cash receipts	<u>3,450,642,700</u>	<u>3,722,594,019</u>	<u>(271,951,319)</u>	<u>(0.07)%</u>
Cash Disbursements:				
Current:				
General government	5,902,507	6,964,262	(1,061,755)	(15.25)%
Vocational and Technical Education	110,653,903	102,506,419	8,147,484	7.95%
Community Schools	2,398,425,982	2,393,185,463	5,240,519	0.22%
Integrated Educative Services for the Disabled	412,079,533	389,485,923	22,593,610	5.80%
Food Services for Students	356,609,710	362,246,847	(5,637,137)	(1.56)%
Schools' Quality of Life and Drug Free	37,420,965	21,831,288	15,589,677	71.41%
Integrated Services to Communities	222,350	280,174	(57,824)	(20.64)%
Adult Education	21,297,286	21,904,678	(607,392)	(2.77)%
Open Schools	719,799	922,385	(202,586)	(21.96)%
Technological Institutes	17,232,318	14,457,972	2,774,346	19.19%
Auxiliary Services and Technical Assistance	115,162,907	88,888,546	26,274,361	29.56%
Institute for Administrative Training and Counseling to Schools	292,173	295,793	(3,620)	(1.22)%
Public Schools Maintenance	35,376,048	26,091,718	9,284,330	35.58%
Printing Services	1,479,580	1,384,876	94,704	6.84%
Indirect Costs	10,481,801	20,465,736	(9,983,935)	(48.78)%
Joint Resolutions	33,488,159	33,642,683	(154,524)	(0.46)%
Special Accounts	34,110,796	1,953,666	32,157,130	1,645.99%
Total cash disbursements	<u>3,590,955,817</u>	<u>3,486,508,429</u>	<u>104,447,388</u>	<u>3.00%</u>
Excess (deficiency) for the year	<u>\$ (140,313,117)</u>	<u>\$ 236,085,590</u>	<u>\$ (376,398,707)</u>	<u>(159.43)%</u>

DEPARTMENT OF EDUCATION OF THE
COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2009

Financial Analysis (continued)

For purpose of analysis, certain amounts in the 2008 Statement of Cash Receipts and Cash Disbursements have been reclassified to conform to the 2009 presentation.

The cash disbursements for the School's Quality of Life and Drug Free program increased \$15.6 million from last year because there were obligations for security services in 2008 that were paid during 2009 for the amount of \$13.6 million.

The cash disbursements under Auxiliary Services and Technical Assistance Program increased \$26.3 million from last year. The main reason for this was an increase in the cash disbursed by the Consolidated Plan Fund. The disbursements in the Consolidated Plan Fund increased from \$30.7 million in 2008 to \$56.9 million in 2009 (\$26.2 million, 85%). The \$26.2 million included \$14 million in salary expense from personnel that were reclassified from the Title I Fund to the Consolidated LEA Fund. It also included \$7.7 million for professional services paid with funds within the Consolidated Plan Fund. This additional expense was to pay for trainings provided to the PRDE School Directors during the summer of 2008. These trainings were related to the development of procedures and techniques that would lead to the satisfactory compliance with the programmatic and fiscal requirements of the Comprehensive School Plan.

The cash disbursements for the Public School Maintenance increased \$9.3 million from last year because during 2009 the purchased services related expenditures increased by \$2.5 million, transportation expenses increased by \$636,900, materials related expenditures also increased by \$2 million, the purchase of equipment increased by \$516,000 and other miscellaneous expenses increased by \$1.9 million.

The cash disbursements under the Indirect Costs decreased by \$10 million when compared with last year. The main reason for this decrease in disbursements was the existence of obligations for educational materials of \$4.4 million and for computer software of \$3.3 during 2008 that were paid during 2009.

The cash disbursements under the Special Accounts increased by \$32.2 million. In 2009 new Special Accounts were assigned to the PRDE, including \$11.4 million for the payment of prior year expenses incurred in the purchase of goods and material related to Food Services. PRDE also received and paid \$2.7 million for the development of projects related to the information technology systems, \$1.7 million in the painting of the schools through-out the Island, \$5 million in obligations made in 2008 for transportation services received by the Special Education Program and another \$5 million for the purchase of educational materials.

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:

DEPARTMENT OF EDUCATION OF THE
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MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2009

General Fund

This is the main operating fund of the PRDE and is used to account for the funds appropriated by the Commonwealth. In general, cash receipts from the Commonwealth appropriation increased by \$32.8 million which is mainly the increase in Special Accounts assigned to the PRDE and explained above.

Title I Fund

This fund is used to account for a portion of the 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.

The cash receipts for the Title I Fund decreased from \$637 million in 2008 to \$195 million in 2009 (a decrease of \$441 million, or 69.2%). The main reason for this decrease was that during 2009, PRDE decided to include the Schoolwide Consolidated Fund (a transfer of \$214 million in 2009), which was previously presented within the column of the Title I Fund, as Other Governmental Funds in the Statement of Cash Receipts and Disbursements.

The same explanation is applicable for the cash disbursements which decreased from \$537 million in 2008 to \$243 million in 2009 (a decrease of \$293 million, or 54.7%). The portion of Title I Program Funds disbursed and included within the Other Governmental Funds Column as the Schoolwide Consolidated Fund was of \$217 million.

The Schoolwide Consolidated Fund was created based on section 1114(a)(1) of the No Child Left Behind Act (NCLB) of 2001. Under this part, a local educational agency may consolidate and use funds, together with other Federal, State, and local funds, in order to upgrade the entire educational program of a school that serves an eligible school attendance area in which not less than 40 percent of the children are from low-income families, or not less than 40 percent of the children enrolled in the school are from such families." During 2009, the Schoolwide Consolidated Fund received state funds as well as federal funds from the following federal programs: Title I Grants to Local Education Agencies, as explained above, Improving Teacher Quality State Grant, Education Technology State Grant, Safe and Drug-Free Schools and Communities – State Grant and from the State Grant Innovative Program.

For accounting purposes, these funds are pooled together in Fund 221. According to sec. 1114 (a)(3)(C) of the NCLB Act, there is an exemption to maintain separate fiscal accounting records, by program. A school that consolidates and uses funds from different Federal programs under this section shall not be required to maintain separate fiscal accounting records, by program, that identify the specific activities supported by those particular funds as long as the school maintains records that demonstrate that the schoolwide program, considered as a whole, addresses the intent and purposes of each of the Federal programs that were consolidated to support the schoolwide program."

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MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2009

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.

DEPARTMENT OF EDUCATION OF THE
COMMONWEALTH OF PUERTO RICO
STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS / STATEMENT OF CASH ACTIVITIES
GOVERNMENTAL FUNDS / GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Title I	Other Governmental Funds	Total Governmental Funds
Cash Receipts:				
Commonwealth appropriations	\$ 2,547,444,831	-	-	\$ 2,547,444,831
Intergovernmental – federal government	-	195,786,255	707,411,614	903,197,869
Total cash receipts	\$ 2,547,444,831	\$ 195,786,255	\$ 707,411,614	\$ 3,450,642,700
Cash Disbursements:				
Current:				
General government	5,902,507	-	-	5,902,507
Vocational and Technical Education	90,676,067	-	19,977,836	110,653,903
Community Schools	1,781,683,329	243,338,147	373,404,507	2,398,425,982
Integrated Educative Services for the Disabled	301,564,868	-	110,514,665	412,079,533
Food Services for Students	161,016,064	-	195,593,646	356,609,710
Schools' Quality of Life and Drug Free	27,792,561	-	9,628,404	37,420,965
Integrated Services to Communities	222,350	-	-	222,350
Adult Education	6,667,438	-	14,629,848	21,297,286
Open Schools	719,799	-	-	719,799
Technological Institutes	6,011,443	-	11,220,875	17,232,318
Auxiliary Services and Technical Assistance	57,259,658	-	57,903,249	115,162,907
Institute for Administrative				
Training and Counseling to Schools	292,173	-	-	292,173
Public Schools Maintenance	35,376,048	-	-	35,376,048
Printing Services	1,479,580	-	-	1,479,580
Indirect Costs	10,481,801	-	-	10,481,801
Joint Resolutions	33,488,159	-	-	33,488,159
Special Accounts	34,110,796	-	-	34,110,796
Total cash disbursements	2,554,744,641	243,338,147	792,873,030	3,590,955,817
Excess (deficiency)	\$ (7,299,810)	\$ (47,551,892)	\$ (85,461,416)	\$ (140,313,117)

See accompanying notes to Statement of Cash Receipts and Cash Disbursements/ Statement of Cash Activities – Governmental Funds/ Governmental Activities

DEPARTMENT OF EDUCATION OF THE
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NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS/
STATEMENT OF CASH ACTIVITIES – GOVERNMENTAL FUNDS/
GOVERNMENTAL ACTIVITIES
YEAR ENDED JUNE 30, 2009

Note 1 - Reporting Entity

The Department of Education of the Commonwealth of Puerto Rico (the PRDE) is an agency created under the 1999 Organic Law of the Department of Education (Law 149) of July 15, 1999, as amended. In addition, the agency is one of the executive departments established in the section 6 of the IV article of the Constitution of the Commonwealth of Puerto Rico. The PRDE is governed by various legal statutes, including the: R.C. Num. 3 from August 28, 1995, which ascribed to the agency the Office of the Improvement of the Public Schools (OIPS).

The operations of the PRDE are administered by the Secretary of Education, which is appointed by the Governor of Puerto Rico, with the advice and consent of the Senate of Puerto Rico. The agency is regulated by the education legislation and regulation enacted by the USA Federal Government, the Puerto Rico and United States of America outstanding jurisprudence, and the outstanding regulation that for various purposes is enacted by the Secretary of Education.

The organic structure of the PRDE includes: the office of the Secretary of Education, the office of the Subsecretary of Academic Affairs, the office of the Subsecretary of Administration, an associated secretariat of Special Education, 7 auxiliary secretariats, 8 main offices (administrative), the "Centro de Investigaciones Educativas e Innovaciones Educativas y Etnográfica", the "Instituto Nacional para el Desarrollo Curricular", "the Insitituto de Capacitación Profesional", "the Legal Division", "the Autoridad Escolar de Alimentos" and the "Agencia Estatal y Servicios de Alimentos y Nutrición". In addition, at June 30, 2009 the agency included 7 regional offices (Arecibo, Bayamón, Caguas, Humacao, Mayaguez, Ponce, and San Juan), 89 school districts, and 1,525 community schools.

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 Commonwealth of Puerto Rico and its financial data is included as part of the general fund in the Commonwealth of Puerto Rico financial statements. The accompanying Statement of Cash Receipts and Cash Disbursements/ Statement of Cash Activities – Governmental Funds/ Governmental Activities is issued to comply with the Single Audit Act of 1984, P.L. 98-502, and the Single Audit Act Amendments of 1996, P.L. 104-156.

On July 15, 1999, the Legislature of the Commonwealth of Puerto Rico enacted Law Number 149, "Ley Orgánica del Departamento de Educación Pública de Puerto Rico." This law 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 regard to the Statement of Cash Receipts and Cash Disbursements/ Statement of Cash Activities – Governmental Funds/ Governmental Activities taken as whole.

DEPARTMENT OF EDUCATION OF THE
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NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS/
STATEMENT OF CASH ACTIVITIES – GOVERNMENTAL FUNDS/
GOVERNMENTAL ACTIVITIES (continued)
YEAR ENDED JUNE 30, 2009

The Secretary of Education is also the Executive Director of OIPS and the PRDE has oversight responsibilities over it. However, the accompanying Statement of Cash Receipts and Cash Disbursements/ Statement of Cash Activities – Governmental Funds/ Governmental Activities does not include the activities of the OIPS, since its operations are subject to a separate financial audit.

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies

Basis of accounting

The accompanying Statement is prepared using the cash basis of accounting. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. However, the Statement does not conform substantially to the reporting requirements of GASB 34 and it is not acceptable under current accounting and auditing standards for general-use financial statements.

Fund accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of the PRDE that are reported in the accompanying Statement of Cash Receipts and Cash Disbursements/ Statement of Cash Activities – Governmental Funds/ Governmental Activities have been classified into governmental funds.

Major individual governmental funds are reported as separate columns in the Statement of Cash Receipts and Cash Disbursements/ Statement of Cash Activities – Governmental Funds/ Governmental Activities, 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.

Budgetary Accounting

The PRDE's budget is integrated within the general budget of the Commonwealth. The budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with GAAP. Cash receipts are generally recognized when cash is received for federal financial assistance programs or other grants that are received from sources other than the Commonwealth. The PRDE is granted the right to draw against available funds of the Secretary

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NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS/
STATEMENT OF CASH ACTIVITIES – GOVERNMENTAL FUNDS/
GOVERNMENTAL ACTIVITIES (continued)
YEAR ENDED JUNE 30, 2009

of the Treasury as its mean to incur in expenditures under the General Fund. Therefore, the budget approved by the Commonwealth represents the spending limit allowed to 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 established 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 at year-end.

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

Risk Management

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

Future adoption of accounting pronouncements

The GASB has issued the following accounting standard that has effective date after June 30, 2009: GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement is effective for periods beginning after June 15, 2010.

The impact of this statement on the PRDE's Statement of Cash Receipts and Cash Disbursements/ Statement of Cash Activities – Governmental Funds/ Governmental Activities has not yet been determined.

Note 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 PRDE is maintained by the

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NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS/
STATEMENT OF CASH ACTIVITIES – GOVERNMENTAL FUNDS/
GOVERNMENTAL ACTIVITIES (continued)
YEAR ENDED JUNE 30, 2009

Commonwealth. Accordingly, no budgetary comparison schedule is presented within these statements.

Note 4 - Indirect Cost Allocation Plan

Generally, each year the PRDE submits a proposal for an indirect cost allocation plan for approval by the USDE, the Audit Cognizant Agency. The latest approved provisional rates by the USDE, which became effective on July 1, 2008 and applicable until June 30, 2009, are 11.7% for school lunch programs and 3% 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.

Note 5 - Retirement Plans

Teachers Retirement System (TRS) - The TRS is a single-employer defined-benefit plan sponsored by the Commonwealth. All active teachers of the PRDE are covered by TRS under the terms of Act No. 91 of March 29, 2005 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.

Employees' Retirement System (ERS) - All other employees of the PRDE participate in the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS). 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. 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.

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NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS/
STATEMENT OF CASH ACTIVITIES – GOVERNMENTAL FUNDS/
GOVERNMENTAL ACTIVITIES (continued)
YEAR ENDED JUNE 30, 2009

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.

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 PRDE 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 employees' contributions (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.

DEPARTMENT OF EDUCATION OF THE
COMMONWEALTH OF PUERTO RICO

NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS/
STATEMENT OF CASH ACTIVITIES – GOVERNMENTAL FUNDS/
GOVERNMENTAL ACTIVITIES (continued)
YEAR ENDED JUNE 30, 2009

Funding Policy for ERS - 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

The PRDE's total contributions for the year ended June 30, 2009, amounted to \$155,684,636.

Additional information on the ERS is provided in its financial statements for the years ended June 30, 2009 and 2008, 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.

Note 6 - Commitments and Contingencies

Federal Financial Assistance Programs - The PRDE administers certain federal financial assistance programs, and is required to comply with the audit requirements established by Office of Management and Budget Circular A-133, Audits of State and Local Governments.

Operational Leases - The PRDE is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore neither the assets nor the liabilities of the lease agreements are reflected in the accounting records. Most leased property is from the Puerto Rico Public Buildings Authority, a component unit of the Commonwealth of Puerto Rico. Rent paid during the fiscal year ended June 30, 2009, under these lease agreements amounted to approximately \$169 million. Information of the future minimum rental payments required under operating leases was not available.

Compliance Agreements - On October 2004 the USA Department of Education (USDE) enter into a compliance agreement with the PRDE to address systematic problems in PRDE's program administration and management of Federal education funds. Those problems were uncovered and identified by numerous audits of PRDE beginning in 1994.

On December 17, 2007 the USDE enter into a three-year compliance agreement with the Commonwealth of Puerto because the PRDE was failing to comply substantially with numerous Federal education programs requirements, and it was clear to the USDE from all available information that PRDE would not be able to come into full compliance with Federal requirements for the administration of USDE programs until a future date. As a result of program monitoring and audits, the USDE identified numerous program areas requiring corrective action by the PRDE (specially the grant funds awarded under Titles I, II and IV of the Elementary and Secondary Education Act, Title IV of Higher Education Act, and Individuals with Disabilities Education Act.

Special Conditions - Significant federal programs having a history of inadequate financial management causing that on June 28, 2007, June 2, 2006, August 8, 2005, and August 2, 2004, the USDE imposed Special Conditions to the PRDE applicable to all awards granted by the USDE

DEPARTMENT OF EDUCATION OF THE
COMMONWEALTH OF PUERTO RICO

NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS/
STATEMENT OF CASH ACTIVITIES – GOVERNMENTAL FUNDS/
GOVERNMENTAL ACTIVITIES (continued)
YEAR ENDED JUNE 30, 2009

for the fiscal years 2008, 2007, 2006 and 2005, respectively to help ensure that the PRDE awards are expended in accordance with applicable legal requirements and with appropriate fiscal accountability measures and management practices and control.

On a communication dated June 28, 2008, the USDE approved the issuance of grant awards to the PRDE for the fiscal year ended June 30, 2009, subject to certain special conditions. The most important conditions imposed included: a) adequate progress in implementing action plans and related reporting requirements; b) reporting requirements beyond Compliance Agreement termination; c) Internal Audit Office and Audit and Financial Oversight Committee reporting requirements; d) prompt access to records requested by the USDE or its representatives; and e) program specific conditions.

2009 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, 2009, disclosed several instances of noncompliance with requirements regarding: activities allowed, allowable costs, cash management, eligibility, reporting, sub-recipient monitoring, special tests and provisions, procurement, suspension and debarment, and property and equipment that were considered significant deficiencies. The schedule of findings and questioned costs in the single audit report includes federal funds questioned in the amount of \$3,201,441.

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) 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.

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.

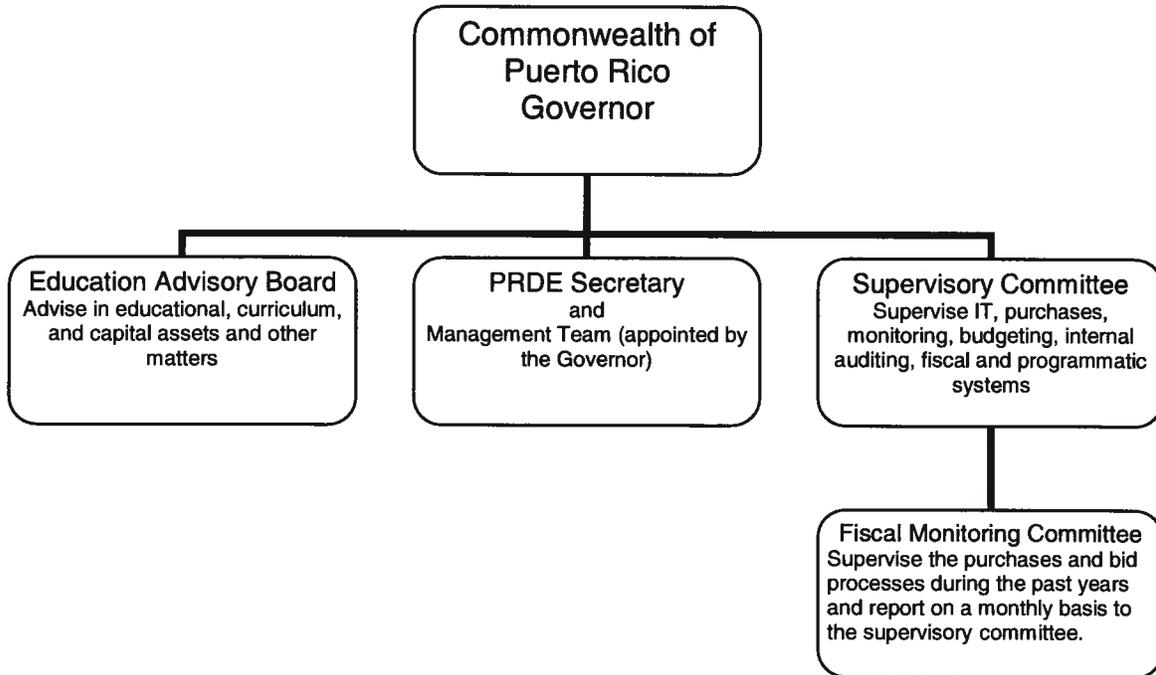
Note 7 Subsequent Events

On December 19, 2009 the PRDE entered in a working agreement with the Commonwealth and the USDE because the agency fail to demonstrate that is making reasonable progress in implementing solutions to its a federal funds administrative and financial management problems.

DEPARTMENT OF EDUCATION OF THE
COMMONWEALTH OF PUERTO RICO

NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS/
STATEMENT OF CASH ACTIVITIES – GOVERNMENTAL FUNDS/
GOVERNMENTAL ACTIVITIES (continued)
YEAR ENDED JUNE 30, 2009

Based on the working agreement the organizational structure of the PRDE was modified as follows:



Accountants &
business advisers

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

Hon. Odette Piñero
Secretary
Department of Education of the
Commonwealth of Puerto Rico

We have audited the Statement of Cash Receipts and Cash Disbursements/ Statement of Cash Activities – Governmental Funds/ Governmental Activities (the Statement) of the Department of Education of the Commonwealth of Puerto Rico (PRDE), for the year ended June 30, 2009 and have issued our report thereon dated April 15, 2010. We express an adverse opinion on the Statement because do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of each fund of the PRDE as of June 30, 2009, or its changes in financial position for the year then ended; and an unqualified opinion on the Statement because present fairly, in all material respects, the cash receipts and cash disbursements of each fund of the PRDE for the year ended June 30, 2009, on the cash basis of accounting.

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 of cash receipts and cash disbursements, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 2009-01 to 2009-07 to be significant deficiencies in internal control over financial reporting.

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Hon. Odette Piñero
Secretary
Department of Education of the
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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the significant deficiency enumerated above as finding 2009-01 is a material weakness.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the PRDE's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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 2009-08.

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

This report is intended solely for the information of management, the Secretary of Education, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



April 15, 2010

PKF, LLP

License No. 22
Expires on December 1, 2010

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Hon. Odette Piñero
Secretary
Department of Education of the
Commonwealth of Puerto Rico

Compliance

We have audited the compliance of the Department of Education of the Commonwealth of Puerto Rico (PRDE) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. The PRDE's major federal programs are identified in the summary of 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 direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 on the PRDE's compliance with those requirements.

As described in findings 2009-09 to 2009-24 in the accompanying schedule of findings and questioned costs, PRDE did not comply with requirements regarding: activities allowed, allowable costs, cash management, eligibility, reporting, sub-recipient monitoring, special tests and provisions, procurement, suspension and debarment, and property and equipment that are applicable to its major programs. Compliance with such requirements is necessary, in our opinion, for PRDE to comply with the requirements applicable to those programs.

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Hon. Odette Piñero
Secretary
Department of Education of the
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In our opinion, except for the non-compliances described in the preceding paragraph, the Department of Education of the Commonwealth of Puerto Rico complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2009.

Internal control over compliance

The management of the PRDE is responsible for establishing and maintaining effective internal control over compliance with 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, 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 would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2009-09 to 2009-24 to be significant deficiencies.

Hon. Odette Piñero
Secretary
Department of Education of the
Commonwealth of Puerto Rico
Page 3

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

This report is intended solely for the information of management, the Secretary of Education, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



PKF, LLP
License No. 22
Expires on December 1, 2010

April 15, 2010

DEPARTMENT OF EDUCATION OF THE
COMMONWEALTH OF PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
CASH ASSISTANCE:		
<u>U.S. Department of Agriculture</u>		
Child Nutrition Cluster:		
National School Lunch Program	10.555	\$ 154,245,531
Summer Food Service Program for Children	10.559	12,673,695
Child and Adult Care Food Program	10.558	26,458,761
State Administrative Expenses for Child Nutrition	10.560	2,205,470
Fresh and Fruit Vegetables	10.582	<u>10,189</u>
		<u>195,593,646</u>
<u>National Endowment of the Humanities</u>		
State Library Program	45.310	<u>2,768,249</u>
<u>U.S. Department of Education</u>		
Adult Education - State Grant Program	84.002	9,037,398
Student Financial Assistance Programs:		
Federal Supplemental Educational Opportunity Grants	84.007	47,281
Federal Work - Study Program	84.033	9,833
Federal Pell Grant Program	84.063	11,106,626
Academic Competitiveness Grants	84.375	57,135
Title I Grants to Local Educational Agencies	84.010	243,338,147
Title I Program for Neglected and Delinquent Children	84.013	697,609
Special Education Cluster:		
Special Education - Grants to States	84.027	106,977,790
Special Education - Preschool Grants	84.173	3,531,928
Emergency Response and Crisis Management	84.184	86,145
Impact Aid	84.041	927,414
Vocational Education - Basic Grants to States	84.048	17,102,053
Byrd Honors Scholarships	84.185	<u>527,700</u>
Sub-total carried forward		393,447,059

DEPARTMENT OF EDUCATION OF THE
COMMONWEALTH OF PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
CASH ASSISTANCE (CONTINUED):		
<u>U.S. Department of Education (continued)</u>		
Sub-total brought forward		\$ 393,447,059
Safe and Drug-Free Schools and Communities - State Grants	84.186	9,628,404
Education for Homeless Children and Youth	84.196	2,538,281
Even Start - State Educational Agencies	84.213	2,824,201
Fund for the Improvement of Education	84.215	4,467
Tech-Prep Education	84.243	1,479,094
National Institute for Literacy	84.257	20,140
Dwight D. Eisenhower	84.281	175,621
Twenty-first Century Community Learning Centers	84.287	25,526,408
State Grants for Innovative Programs	84.298	509,044
Education Technology State Grants	84.318	9,177,009
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	4,947
Grants to States for Incarcerated Youth Offenders	84.331	171,380
Comprehensive School Reform Demonstration	84.332	6,775
Teacher Quality Enhancement Grants	84.336	-
Early Reading First	84.359	21,996
English Language Acquisition Grants	84.365	-
Mathematics and Science Partnerships	84.366	9,630,959
Improving Teacher Quality State Grants	84.367	56,951,545
Grants for State Assessments and Related Activities	84.369	<u>9,560,122</u>
		<u>521,677,452</u>
<u>U.S. Department of Health and Human Services/Pass through the Puerto Rico Department of Health</u>		
Abstinence Education	93.235	<u>232,715</u>
Sub-total carried forward		<u>232,715</u>

DEPARTMENT OF EDUCATION OF THE
COMMONWEALTH OF PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
CASH ASSISTANCE (CONTINUED):		
<u>U.S. Department of Health and Human Services/Pass through the Puerto Rico Department of Health (continued)</u>		
Sub-total brought forward		\$ 232,715
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	<u>163,963</u>
		<u>396,678</u>
<u>U.S. Department of Homeland Security</u>		
Learn and Serve America – School and Community Serve Program		
	94.004	248,819
Public Assistance Grants	97.036	<u>-</u>
		<u>248,819</u>
<u>Consolidated Plan</u>	N/A	<u>56,975,835</u>
<u>Schoolwide</u>	N/A	<u>258,550,498</u>
NON-CASH ASSISTANCE:		
<u>U.S. Department of Agriculture</u>		
Food Donation	10.550	<u>14,418,252</u>
		<u>\$ 1,050,629,429</u>

See accompanying notes to schedule of expenditures of federal awards.

DEPARTMENT OF EDUCATION OF THE
COMMONWEALTH OF PUERTO RICO

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

Note 1 - Basis of Presentation

The supplementary Schedule of Expenditures of Federal Awards 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 Statement of Cash Receipts and Cash Disbursements/ Statement of Cash Activities – Governmental Funds/ Governmental Activities.

The Schedule of Expenditures of Federal Awards 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 Statement of Cash Receipts and Cash Disbursements/ Statement of Cash Activities – Governmental Funds/ Governmental Activities.

Note 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 of Expenditures of Federal Awards 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
Special Education	Special Education – Grants to States	84.027
	Special Education – Preschool Grants	84.173
Student Financial Assistance Programs	Federal Supplemental Educational Opportunity Grants	84.007
	Federal Work-Study Program	84.033
	Federal Pell Grant Program	84.063
	Academic Competitiveness Grants	84.375

Note 3 - Transferability

Expenditures in the Schedule of Expenditures of Federal Awards for the year ended June 30, 2009, for the State Grants for Innovative Programs (CFDA # 84.298) includes \$12,427,779 of funds transferred from the Improving Teacher Quality State Grants program (CFDA # 84.367).

DEPARTMENT OF EDUCATION
OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2009

Section 1 - Summary of Auditor's Results:

Financial Statements:

Type of auditor's report issued:

Adverse on the Statement because do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position, or the changes in financial position of each fund of the PRDE; and an unqualified opinion on the Statement because present fairly, in all material respects, the cash receipts and cash disbursements of each fund of the PRDE on the cash basis of accounting.

Internal control over financial reporting:

- | | |
|--|-----|
| 1. Material weakness identified? | Yes |
| 2. Significant deficiency(ies) identified that are not considered to be material weakness? | Yes |
| 3. Noncompliance material to financial statements noted? | Yes |

Federal awards:

Internal control over major programs:

- | | |
|---|-----|
| 1. Material weakness(es) identified? | No |
| 2. Significant deficiency(ies) 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 Circular A-133, Section .510 (a)?

Yes

Identification of major programs:

CFDA Number(s)

10.550

10.555

10.559

10.558

84.002

84.007

84.033

84.063

84.375

84.010

84.027

Name of Federal Program or Cluster

Food Donation

Child Nutrition Cluster:

National School Lunch Program

Summer Food Services Program for Children

Child and Adult Care Food Program

Adult Education - State Grant Program

Student Financial Assistance Programs:

Federal Supplemental Educational Opportunity Grants

Federal Work-Study Program

Federal Pell Grant Program

Academic Competitiveness Grants

Title I Grants to Local Educational Agencies

Special Education Cluster: Special Education – Grants to States

DEPARTMENT OF EDUCATION
OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster (continuation)</u>	
84.173	Special Education - Preschool Grants	
84.048	Vocational Education - Basic Grants to States	
	Safe and Drug-Free Schools and Communities -	
	State Grants	
84.186	Twenty-first Century Community Learning	
84.287	Centers	
84.318	Education Technology State Grants	
84.366	Mathematics and Science Partnerships	
84.367	Improving Teacher Quality State Grants	
84.369	Grants for Sates Assessment and Related Activities	
N/A	Consolidated State Plan	
N/A	Schoolwide	
Dollar threshold used to distinguish between Type A and Type B programs:		\$3,151,889
Auditee qualified as a low-risk auditee?		No

DEPARTMENT OF EDUCATION
OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Section 2 - Financial Statement Findings:

Financial Statement Finding 2009-01

Program CFDA No. / Grant No.:	N/A
Type of Deficiency:	
<ul style="list-style-type: none"> • Internal Control Over Financial Reporting: <ul style="list-style-type: none"> ▪ Significant deficiencies ▪ Material weakness • Compliance and other Matters • Compliance • Internal Control Over Compliance 	X
Questioned Cost:	Not Applicable

Condition:

During our audit of the PRDE we found the following conditions over financial reporting:

1. Inappropriate and/or incomplete financial data, cut-off procedures, as well as incomplete year-end reconciliation and closing procedures continue to exist:
 - As occurred in 2007-2008, many transactions and adjustments are posted months after the applicable closing with a retroactive effect, due to delays in the processing of information, especially those related to payroll transactions; and
 - As occurred in 2007-2008, the PRDE has incomplete fiscal controls and accounting procedures related to the amounts transferred to the Community Schools Administration and Office for the Improvement of the Public Schools which prevent the agency from having accurate, current and complete disclosure of the financial results of financially assisted activities in accordance with the grant agreements.
2. Delays in the processing of the accounting information. As occurred in 2007-2008, the PRDE representatives submitted three (3) trial balances for auditing purposes with material differences and it was not until march 2010 that the financial data to be audited was received by our auditors.

Criteria:

Internal control is a major part of managing an organization. It comprises the plans, methods, and procedures used to meet missions, goals, and objectives and, in doing so, support performance-based management. Internal control also serves as the first line of defence in safeguarding assets and preventing and detecting errors and fraud. In short, internal control, which is synonymous with management control, helps government program managers achieve desired results through effective stewardship of public resources.

DEPARTMENT OF EDUCATION
OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

In addition, as government managers strive to achieve their agency's missions and goals and provide accountability for their operations, they need to continually assess and evaluate their internal control structure to assure that it is well designed and operated, appropriately updated to meet changing conditions, and provides reasonable assurance that the objectives of the agency are being achieved. Specifically, managers need to examine internal control to determine how well it is performing, how it may be improved, and the degree to which it helps identify and address major risks for fraud, waste, abuse, and mismanagement.

Cause:

The PRDE does not have implemented a formal assessment of its internal control over financial reporting process as a continuous business practice.

Effect:

PRDE Internal Control over financial reporting does not provide reasonable assurance that the objectives over financial reporting are being achieved.

Recommendation:

A sharp focus on improving internal controls could lead to better operational practices within the PRDE, provide citizens with more confidence about the effectiveness of the PRDE, and could free up time and funds for important PRDE services. In this context we strongly recommend the PRDE to implement an assessment model to improve internal control and governance over financial reporting continuous business practice.

END FINDING NO. 2009-01

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OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Financial Statement Finding 2009-02

Program CFDA No. / Grant No.:	N/A
Type of Deficiency:	
<ul style="list-style-type: none"> • Internal Control Over Financial Reporting: <ul style="list-style-type: none"> ▪ Significant deficiencies ▪ Material weakness • Compliance and other Matters • Compliance • Internal Control Over Compliance 	X
Questioned Cost:	Not Applicable

Condition:

During our audit of the PRDE we found the following factors related to its financial reporting monitoring activities:

1. The audit standard option (AUDIT TRACKS) of PeopleSoft for SIFDE accounting application is deactivated.
2. The PeopleSoft application security document is not updated nor is there a procedure for handling it. The PRDE must establish written rules and procedures in order to delineate the internal control measures, establish uniform standards for documentation and description of all programmatic functions. Once implanted, these procedures must be reviewed and updated according to changes in the SIFDE application. Do not have an updated security document contribute to fail in provide a consistent level of control throughout the PRDE.
3. The finance office does not have a data dictionary for the database of the SIFDE application. The data dictionary is the repository of all data definitions for the SIFDE accounting application. Not having a data dictionary affect the effectiveness, efficiency and productivity of the different levels of users of the SIFDE application and, the integrity and availability of financial information itself.
4. Unlocking SIFDE users' accounts are not adequate. The unlocking control procedure states that locked accounts can only be unlocked with the assistance of the Security Administrator. Our audit revealed that the Helpdesk option also unlock accounts.
5. The PRDE has invested a significant amount of dollars in a Business Intelligence solution that provides key performance indicators as well as information to facilitate financial and programmatic decision making and the managing of financial and programmatic operations on an ongoing basis. This tool which has been developed with Business Objects as the underlying technology has not been fully-deployed and is not in use by many the financial and programmatic areas.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

6. The internal audit office has not conducted an information technology audit to assess the adequacy and operational effectiveness of key controls within IT to ensure that financial data processed is accurate and complete.
7. PRDE can not ensure that only valid transactions are initiated or entered into the STAFF application during fiscal year 2008-2009, in accordance with management's decisions and directives. The username ROCKSOLID, which belong to the Rock Solid consultants group, a contractor of the PRDE, was used during fiscal year 2008-2009 to initiated or entered transactions on the STAFF human resources application. We found that 5,453 transactions affecting the Employee Master table were initiated or entered under the username ROCKSOLID. We also found that 2,017 transactions were initiated or entered under the username of Rocksolid in the LastChangedUser field. The usernames ROCKSOLID or RockSolid are generics and does not identify a particular person, therefore nobody can be accountable for the 7,470 human resources transactions initiated or entered in the STFF application during fiscal year 2008-2009.

Criteria:

Internal control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved.

Cause:

PRDE personnel do not adequately supervise, on a timely basis, the agency significant financial reporting activities.

Effect:

The PRDE control activities over financial reporting cannot help ensure that management's directives are carried out.

Recommendation:

A sharp focus on improving internal controls could lead to better operational practices within the PRDE, provide citizens with more confidence about the effectiveness of the PRDE, and could free up time and funds for important PRDE services. In this context we strongly recommend the PRDE to make an assessment of its ongoing financial reporting monitoring activities. PRDE internal control should be designed to assure that ongoing monitoring occurs in the course of normal operations; it is performed continually and is ingrained in the PRDE's operations.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Financial Statement Finding 2009-03

Program CFDA No. / Grant No.:	N/A
Type of Deficiency:	
<ul style="list-style-type: none"> • Internal Control Over Financial Reporting: <ul style="list-style-type: none"> ▪ Significant deficiencies ▪ Material weakness • Compliance and other Matters • Compliance • Internal Control Over Compliance 	X
Questioned Cost:	Not Applicable

Condition:

The PRDE did not have a Strategic Plan for Information Technology approved by management, including at least provisions regarding:

1. Strategic alignment – focuses on ensuring the linkage of Business and IT plans; Refining, maintaining and validating the IT value proposition; and aligning IT operations with enterprise operations.
2. Value delivery – is about executing the value proposition throughout the delivery cycle, ensuring that IT delivers the promised benefits against the strategy, concentrating on optimizing costs and proving the intrinsic value of IT.
3. Resource management - is about the optimal investment in, and the proper management of, critical IT resources: applications, information, infrastructure and people. Key issues relate to the optimization of knowledge and infrastructure.
4. Risk management – requires risk awareness by senior corporate officers, a clear understanding of the enterprise's appetite for risk, understanding of compliance requirements, transparency about the significant risks to the enterprise and embedding of risk management responsibilities into the organization.
5. Performance measurement – tracks and monitors strategy implementation, project completion, resource usage, process performance and service delivery, using, for example, balanced scorecards that translate strategy into achieve goals measurable beyond conventional accounting.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Criteria:

The policy number TIG-001 of the circular number 77-05 states that government agencies are responsible for preparing the Annual Plan Management Technology Resources exposing the strategy to follow in the technological area according to the vision and mission agency and that this development-oriented e-government.

Cause:

PRDE management is not aware of its responsibility with the IT governance.

Effect:

The lack of an Information Technology Strategic Plan duly approved and implemented for the PRDE makes it likely that fail in satisfies the quality, fiduciary and security requirements for their information, as for all assets. Management should also optimize the use of available IT resources, including applications, information, infrastructure and people. To discharge these responsibilities, as well as to achieve its objectives, management should understand the status of its enterprise architecture for IT and decide what governance and control it should provide.

Recommendation:

PRDE must prepare and adopt a Strategic Plan for Information Technology.

END FINDING NO. 2009-03

DEPARTMENT OF EDUCATION
OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Financial Statement Finding 2009-04

Program CFDA No. / Grant No.:	N/A
Type of Deficiency:	
<ul style="list-style-type: none"> • Internal Control Over Financial Reporting: <ul style="list-style-type: none"> ▪ Significant deficiencies ▪ Material weakness • Compliance and other Matters • Compliance • Internal Control Over Compliance 	X
Questioned Cost:	Not Applicable

Condition:

The PRDE did not have implemented an Information Security Plan approved by management, including, at least, provisions regarding:

1. Developing and maintaining of plans to implement information security strategy.
2. The activities to be performed as part of the information security program.
3. The alignment of the information security program with other areas of assurance (e.g., human resources, internal audit function, IT).
4. The development of information security architectures (e.g., people, processes, technology).
5. The establishment and communication of the information security policies that support the security strategy.
6. The design and develop of a program to promote awareness and training on information security.
7. The development, communication and maintenance of standards, procedures and other documentation that support the information security policies.

Criteria:

The policy number TIG-003 of the circular number 77-05 states that government agencies have the responsibility to establish adequate controls in their electronic systems to ensure confidentiality, integrity and availability of the information they handle.

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OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Cause:

PRDE management is not aware of its responsibility with the IT governance.

Effect:

The lack of a Security Plan duly approved and implemented makes likely that in addition to jeopardizing the integrity, confidentiality and availability of information of the PRDE, each new target information security is treated as an isolated project which does not draw an absolute advantage of the expertise, tools and techniques which already may be available in the agency infrastructure. This also increases the likelihood that efforts are not well integrated, which increases maintenance costs and administration, and may not provide a consistent level of security throughout the organization.

Recommendation:

PRDE must prepare and adopt a Security Plan for Information Technology.

END FINDING NO. 2009-04

DEPARTMENT OF EDUCATION
OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Financial Statement Finding 2009-05

Program CFDA No. / Grant No.:	N/A
Type of Deficiency:	
<ul style="list-style-type: none"> • Internal Control Over Financial Reporting: <ul style="list-style-type: none"> ▪ Significant deficiencies ▪ Material weakness • Compliance and other Matters • Compliance • Internal Control Over Compliance 	X
Questioned Cost:	Not Applicable

Condition:

The PRDE did not have implemented formalized security policy approved by management, including, at least, provisions regarding:

1. Antivirus patches
2. OS Patches
3. Backups
4. Risk Management
5. Disaster Recovery
6. Business Continuity
7. Managing administrator accounts
8. Account Management network users
9. User Account Management application
10. Database Administration
11. Change Management
12. IT Strategic Plan
13. Security Monitoring
14. Capacity Management
15. Provision of equipment and storage media
16. Using the flash drive, CD burners, etc.
17. Training program, awareness and training in information security
18. Transfers and separation
19. Configuration of routers, firewalls, servers, personal computers, switches, etc.
20. Third parties access security
21. Information classification
22. Communications and operations management
23. Cryptography

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

- 24. Security system tools
- 25. Compliance with legal requirements
- 26. Remote Access
- 27. Using the Internet
- 28. Using E-mail Software License Management

Criteria:

The policy number TIG-003 of the circular number 77-05 states that government agencies have the responsibility to establish adequate controls in their electronic systems to ensure confidentiality, integrity and availability of the information they handle.

Cause:

PRDE management is not aware of its responsibility with the IT governance.

Effect:

The lack of a Security Plan duly approved and implemented makes likely that in addition to jeopardizing the integrity, confidentiality and availability of information of the PRDE, each new target information security is treated as an isolated project which does not draw an absolute advantage of the expertise, tools and techniques which already may be available in the agency infrastructure. This also increases the likelihood that efforts are not well integrated, which increases maintenance costs and administration, and may not provide a consistent level of security throughout the organization.

Recommendation:

PRDE must prepare and adopt a Security Plan for Information Technology.

END FINDING NO. 2009-05

DEPARTMENT OF EDUCATION
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Financial Statement Finding 2009-06

Program CFDA No. / Grant No.:	N/A
Type of Deficiency:	
<ul style="list-style-type: none"> • Internal Control Over Financial Reporting: <ul style="list-style-type: none"> ▪ Significant deficiencies ▪ Material weakness • Compliance and other Matters • Compliance • Internal Control Over Compliance 	X
Questioned Cost:	Not Applicable

Condition:

During the performance of our audit tests, we noted that the filing control procedures in place do not allow for the prompt retrieval of payments and other documents requested.

Criteria:

Internal control is a major part of managing an organization. It comprises the plans, methods, and procedures used to meet missions, goals, and objectives and, in doing so, support performance-based management. Internal control also serves as the first line of defence in safeguarding assets and preventing and detecting errors and fraud. In short, internal control, which is synonymous with management control, helps government program managers achieve desired results through effective stewardship of public resources.

Cause:

This condition is due to the lack of adequate filing procedures, volume of documents, and the decentralized nature of the operations.

Effect:

The lack of an adequate filing system may cause the loss of important payment information and supporting documentation that provides essential evidence on the use of federal funds.

Recommendation:

The PRDE must emphasize the importance of maintaining an adequate filing system that allows the prompt retrieval of all payment documents and related supporting documentation.

END FINDING NO. 2009-06

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Financial Statement Finding 2009-07

Program CFDA No. / Grant No.:	N/A
Type of Deficiency:	
<ul style="list-style-type: none"> • Internal Control Over Financial Reporting: <ul style="list-style-type: none"> ▪ Significant deficiencies ▪ Material weakness • Compliance and other Matters • Compliance • Internal Control Over Compliance 	X
Questioned Cost:	Not Applicable

Condition:

The PRDE does not have a data classification policy and procedures to handling, labeling, controlling and review the wide agency information.

Criteria:

The Policy number TIG-003 of the circular number 77-05 provides that the agencies should follow the following security policy in its systems:

1. If it is determined that there is sensitive data passing through non-secure networks (such as Internet or wireless networks), should take the necessary controls to ensure confidentiality, such as using encryption.

Cause:

PRDE management is not aware of its responsibility with the IT governance.

Effect:

The PRDE information is not protected in a manner commensurate with its sensitivity and criticality.

Recommendation:

The PRDE should adopt an information classification system that categorizes information into different grouping (e.g., Confidential, Internal use only, or Public). Security measures must be employed regardless of the media on which information is stored, the systems that process it, or the methods by which it is moved. Information must be protected in a manner that is consistent with its classification, no matter what is its stage in the life cycle from origination to destruction.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

CONFIDENTIAL Classification Table

Action	Requirement
Storage on Fixed Media	Encrypted or Physical Access Control
Storage on Exchangeable Media	Encrypted
Copying	Permission of Owner Advised
Faxing	Password Protected Recipient Mailbox or Attended Receipt
Sending By Public Network	Encrypted
Disposal	Shredding or Secure Disposal Boxes
Release to Third Parties	Owner Approval and Non-Disclosure Agreement
Electronic Media Labeling Required	External and Internal Labels
Hardcopy Labeling Required	Each Page if Loose Sheets
	Front and Back Covers, and Title Page if Bound
Internal and External Mail Packaging	Address to Specific Person but Label Only on the Inside Envelope
Granting Access Rights	Owner Only
Tracking Process by Log	Not Required

INTERNAL USE ONLY Classification Table

Action	Requirement
Storage on Fixed Media	Encryption Optional
Storage on Exchangeable Media	Encryption Optional
Copying	No Restrictions
Faxing	No Restrictions
Sending By Public Network	Encryption Optional
Disposal	Ordinary Trash Can
Release to Third Parties	Non-Disclosure Agreement
Electronic Media Labeling Required	No Label Required
Hardcopy Labeling Required	No Label Required
Internal and External Mail Packaging	Only One Envelope with No Markings
Granting Access Rights	Local Manager
Tracking Process by Log	Not Advised

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

PUBLIC Classification Table

Action	Requirement
Storage on Fixed Media	Encryption Not Advisable
Storage on Exchangeable Media	Encryption Not Advisable
Copying	No Restrictions
Faxing	No Restrictions
Sending By Public Network	Encryption Not Advisable
Disposal	Ordinary Trash Can
Release to Third Parties	No Restrictions
Electronic Media Labeling Required	Release Date plus Classification
Hardcopy Labeling Required	Release Date plus Classification
Internal and External Mail Packaging	Only One Envelope with No Markings
Granting Access Rights	No Restrictions
Tracking Process by Log	Not Advised

END FINDING NO. 2009-07

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Financial Statement Finding 2009-08

Program CFDA No. / Grant No.:	N/A
Type of Deficiency:	
<ul style="list-style-type: none"> • Internal Control Over Financial Reporting: <ul style="list-style-type: none"> ▪ Significant deficiencies ▪ Material weakness • Compliance and other Matters • Compliance • Internal Control Over Compliance 	X
Questioned Cost:	Not Applicable

Condition:

During the year ended June 30, 2009, the PRDE charged expenditures to governmental fund programs amounting to \$4,183,139,126. To test compliance with the state laws and regulations, we selected a sample of 60 charges to state funds. In testing compliance and internal controls over allowability and procurement requirements for state funds, we noted the following exceptions:

- i. In forty (40) of the sixty (60) cases (66%) examined, no procurement documents were provided for examination. Total unsupported costs amounted to \$18,750.
- ii. In fifty four (54) of the sixty (60) cases (90%) examined, no quote, bids, proposal or contract were provided for examination. Total unsupported costs amounted to \$19,681.

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 others, 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 August 12, 1988; Law 164 dated July 23, 1974; and Law 77 dated June 25, 1974.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Cause:

This situation is 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.

Effect:

The PRDE filing system do not allow for the prompt retrieval of documents.

Recommendation:

The PRDE must emphasize the importance of maintaining an adequate filing system that allows the prompt retrieval of all payment documents and related supporting documentation. Additionally, the PRDE must implement a filing system that permits the efficient filing, tracking and retrieval of filed documents.

END FINDING NO. 2009-08

DEPARTMENT OF EDUCATION
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Section 3 - Federal Awards Findings:

Finding 2009-09

Program CFDA No. / Grant No.:	All Federal Programs
Type of Deficiency:	
Internal Control Over Financial Reporting:	
o Significant deficiencies	
o Material weakness	
Compliance and other Matters	
Compliance	X
Internal Control Over Compliance	X
Compliance Requirements Tested:	<ul style="list-style-type: none"> • Activities allowed • Allowable costs • Cash Management • Eligibility • Reporting • Subrecipient Monitoring • Special tests and provisions • Procurement, suspension and debarment
Questioned Cost:	Not Determinable

Condition:

On December 17, 2007, the USDE signed a Compliance Agreement ("the Agreement") with the PRDE and the Commonwealth of Puerto Rico. This Agreement, lasting three years, is intended to provide an opportunity for the PRDE to address its systemic problems identified in prior and recent audits, without the immediate penalties imposed in instances of non-compliance with federal requirements and regulations, except for audit findings involving criminal actions.

As part of our audit procedures, we reviewed the documentation provided by the PRDE to support the action steps to be completed in order to comply with the corrective action plans according the Agreement, after our examination, we found that the PRDE failed to meet the following action steps:

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

A. Task 1.0: Title 1 – Standards and Assessments (Attachment A):

1. Action Step: Administer the PPAA Writing Tests. - *Attendance sheets were not available for examination.*
2. Action Step: PPAA Spring 2009 Census Test Production- *Census Test was not available for examination.*
3. Action Step: Review the assessment data to document participation of all students in the assessments – *PRDE did not provide reports that specify the participation rates and methods of calculation.*

B. Task 3.0: Adequate Yearly Progress (AYP)

Its goal is to develop and implement an approved plan for the timely calculation of AYP, consistent with all statutory and regulatory requirements.

As part of our audit procedures, we reviewed the documentation provided by the PRDE to support the action steps to be completed in order to comply with the corrective action plans for Task 3.0 and we found that PRDE failed to meet the following action steps:

- 1) Action Step: Analyze Disseminate final 2009 AYP determinations - *Electronic (DE Portal) notifications of school's final AYP determination were not found.*
- 2) Action Step: Provide follow up training to administrative staff as needed to ensure that all PRDE components understand the AYP requirements and the use of AYP to make school improvement decisions - *PRDE did not provide copies of guidance on school improvements.*

C. Task 4.0: Accountability Requirements

Its goal is to develop and implement a methodology by which the PRDE will comply with all ESEA Title I accountability requirements.

As part of our audit procedures, we reviewed the documentation provided by the PRDE to support the action steps to be completed in order to comply with the corrective action plans for Task 4.0 and we found that PRDE failed to meet the following action steps:

- 1) Action Step: Produce reports on findings from the spring 2008 administration and implement changes to ensure the improvement on quality control procedures – *Monitoring reports were not available for examination.*
- 2) Action Step: Create a PRDE monitoring unit that will be responsible for monitoring the accuracy of assessment data to ensure that all students are being assessed appropriately on an annual basis – *Copy of the new monitoring guidelines were not available for examination.*

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

D. Task 13.0: Title IV of the Higher Education Act (HEA)

Its goal is to develop and implement procedures to ensure compliance with Federal Student Assistance regulations requiring accounting on an accrual, rather than cash, basis.

As part of our audit procedures, we reviewed the documentation provided by the PRDE to support the action steps to be completed in order to comply with the corrective action plans for Task 13.0 and we found that PRDE failed to meet the following action step:

- 1) Action Step: PRDE will ensure compliance with Department regulations at 34CFR 668.23(d), implementing Title IV of the HEA, that require all schools receiving funds under the HEA to submit financial statements prepared on an accrual basis, in accordance with U.S. Generally Accepted Accounting Principles (GAAP). *Financial Statements prepared on an accrual basis were not submitted.*

E. Task 16.0: Full Implementation of Internal Audit Office and Audit Committee

Its goal is to correct PRDE's current deficiencies in its internal audit practices. As part of our audit procedures, we reviewed the documentation provided by the PRDE, to support the action steps to be completed in order to comply with the corrective action plans for Task 16.0 and we found that PRDE failed to meet the following action steps:

- 1) Action Step: Provide Make semiannual reports of all IAO activities available to the public through the internet side. *URL address was not found.*
- 2) Action Step: Prepare results and status of the correction actions and provide these reports to the Audit Committee, USDE and the public – *Proof of the submitting to the public was not available.*
- 3) The Committee will hold at least four meetings annually and will meet in a separate executive sessions with PRDE management, independent auditors, and internal audit department representatives to review and resolve matters of concern presented to the committee – *List of meetings with attendance sheets were not available for examination.*

Criteria:

On December 17, 2007, the USDE signed a new Compliance Agreement ("the Agreement") with the PRDE and the Commonwealth of Puerto Rico. This Agreement, lasting three years, is intended to provide an opportunity for the PRDE to address its systemic problems identified in prior and recent audits, without the immediate penalties imposed in instances of non-compliance with federal requirements and regulations, except for audit findings involving criminal actions.

The Agreement addresses the following issue areas: a) Task 1.0: Title I-Standards and Assessments (Attachment A); b) Task 2.0: Title I-Improvement of Programmatic Performance;

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

c) Task 3.0: Adequate Yearly progress (AYP); d) Task 4.0: Accountability Requirements; e) Task 5.0: Activities for Schools in Corrective Action, Improvement, Restructuring, and Alternative Governance; f) Task 6.0: Public School Choice and Supplemental Education Services; g) Task 7.0: Parental involvement and Notification; h) Task 8.0: Paraprofessional Qualifications; i) Task 9.0: Even Start Family Literacy Program; j) Task 10.0: Highly Qualified Teachers (HQT); k) Task 11.0: Safe and Drug Free Schools Discretionary and State Grants; l) Task 12.0: Twenty-first Century Schools-After School Learning Centers (21st CCL); m) Task 13.0: Title IV of the Higher Education Act (HEA); n) Task 14.0: Establish Effective Communication System To Administer Grant Funds; o) Task 15.0: Submit All Required Program Data; p) Task 16.0: Full Implementation of Internal Audit Office and Audit Committee.

Cause:

Corrective action is not taken or improvements are not made within established time frames to resolve the matters brought to management's attention.

Effect:

If a plan, report or documentation is not provided by PRDE on a timely basis or is not considered acceptable to the USDE (for example, it does not show in the audits substantial promise of correcting the problems), it may be considered as a failure to comply with the special conditions and be subject to several remedies.

Also, if USDE determines that the PRDE has not made substantial progress in meeting program objectives, or has not met program requirements, or the special conditions referred to above, the USDE may consider not continuing PRDE's grants, taking further enforcement actions steps, or applying additional conditions, including:

- a. Conditions under which the PRDE would receive no further funds under one or more grant awards or only on a reimbursement basis;
- b. Conditions providing for the USDE's recovery of misspent funds from the PRDE: or
- c. Conditions requiring the PRDE to contract (on a competitive basis) with a third party, who must be approved by the USDE, to provide the services of financial management under a grant award or awards. The third party would, at a minimum, assist in preparing the vouchers to be submitted to the USDE for reimbursement, and will verify their accuracy and legitimacy as an appropriate expenditure under one or more grant awards.

In the event that the PRDE fails to continue its efforts toward correcting the systemic problems uncovered by the auditors between 1994 and 2003, and is not making sufficient progress to meet the terms of the Agreement, the USDE retains the authority to reinstate the "high-risk" designation that was removed in 2004. If the USDE determines that such reinstatement becomes necessary, additional special conditions or restrictions may include, but will not necessarily be limited to: (1) payment of federal funds on a reimbursement basis; (2) withholding authority to proceed to next phase until receipt of evidence of acceptable performance within a given funding period; (3) requiring additional more detailed financial reports; (4) requiring additional project monitoring; (5) requiring PRDE to obtain technical or

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

management assistance, including the designation of a third-party fiduciary to administer all or part of PRDE's grants from the USDE; (6) establishing additional prior approvals; or (7) recovery of misspent funds. The use of a condition for one covered Federal program does not require or preclude its use for a different covered Federal program.

Recommendation:

We strongly recommend the PRDE to ascertain compliance with the Special Conditions, Memorandum of Agreement and the Compliance Agreements to prevent the reinstatement of the "high-risk" designation and any other enforcement actions available to the USDE.

END FINDING NO. 2009-09

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Finding 2009-10

Program CFDA No. / Grant No.:	Various
Type of Deficiency:	
Internal Control Over Financial Reporting:	
o Significant deficiencies	
o Material weakness	
Compliance and other Matters	
Compliance	X
Internal Control Over Compliance	X
Compliance Requirement Tested:	<ul style="list-style-type: none"> • Activities Allowed • Allowable costs
Questioned Cost:	CFDA 84.027 \$37,740

Condition:

To test PRDE's compliance with the provisions of Attachment B, Section 11 of the OMB Circular A-87 and to determine if charges to federal awards for payroll and payroll related expenditures were allowable, we selected for test a random sample of 60 employees. The sample was composed of 30 employees compensated with state funds and 30 with federal funds. For each employee selected, we noted that the following documentation was missing from the employees' files:

Documents Missing	TOTAL FILES EXAMINED	DOCUMENTS NOT FOUND	TEACHER LICENSE EXPIRED	TOTAL EXCEPTIONS	PERCENTAGE OF EXCEPTIONS
Documents Required to Non-Facultative Personnel Only					
Eligible Certification (Form DE-8-2000)	60	9		9	15.00%
Authorization to Cover Position	60	11		11	18.33%
Documents Required by PRDE					
Teacher License or Membership	60		3	4	8.33%
Fidelity Pledge (Form DE-4); (Section "III.20")	60	3		3	5.00%
Health Cert. (Form DE-12); (Section "III.20")	60	3		3	5.00%
Copy of SS Card; (Section "III.20")	60	11		11	18.33%
Informative Manual Work Area free of Drugs (Section "III.20")	60	26		26	43.33%
Drug Free Test; (Section "III.20")	60	31		31	51.67%
I-9 Form; (Section "III.20")	60	9		9	15.00%
Good behavior certificate; (Section "III.20")	60	5		5	8.33%
Income Tax Withholding Form (499R-4)	60	22		22	36.67%

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Of the four (4) teachers without license stated above, one (1) of them was federal employee. Their annual payroll has been questioned.

Criteria:

Attachment B, Section 8(a) (2) of the OMB Circular A-87 establishes that the cost of compensation for personnel services is allowable to the extent that it follows an appointment made in accordance with the governmental unit's laws and rules and meets the merit system or other requirements required by federal law, where applicable.

Cause:

Established procedures are not being followed and consequently, documents required for recruiting purposes have not been always obtained or properly filed.

Effect:

Incomplete files and personnel not meeting state employment laws and regulations and federal merit system could lead to cost disallowances. Lack of controls over the time charges of personnel that are working on federal programs could result in payments to employees who are not working or performing duties directly related to the federal programs from which they are being paid. Additionally, payroll expenditures charged to several federal programs were overstated and the amounts claimed for indirect costs might be also overstated. Due to the large number of employees that work and are paid with federal programs funds, the conditions described above may expose the PRDE to fail to meet the requirements of the Compliance Agreement and be subject to the remedies outlined therein.

Recommendation:

The PRDE shall develop a comprehensive plan to ensure that: a) all the personnel files are on hand and complete; and b) all personnel required reports are prepared and processed immediately. The PRDE shall promptly allocate sufficient resources to complete the time distribution system.

END FINDING NO. 2009-10

DEPARTMENT OF EDUCATION
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Finding 2009-11

Program CFDA No. / Grant No.:	<ul style="list-style-type: none"> • Child Nutrition Cluster (10.555, 10.559) • Adult Education- State Grant Program (84.002) • Title I Grants To Local Educational Agencies (84.010) • Special Educational Cluster (84.027, 84.173) • Vocational Educational – Basic Grants To States (84.048) • Safe And Drug Free Schools And Communities – States Grants (84.186) • Even Start- State Educational Agencies (84.213) • Twenty-First Century Community Learning (84.287) • Education Technology State Grants (84.318) • Mathematics & Science Partnerships (84.366) • Improving Teacher Quality State Grants (84.367)
Type of Deficiency:	
Internal Control Over Financial Reporting:	
o Significant deficiencies	
o Material weakness	
Compliance and other Matters	
Compliance	X
Internal Control Over Compliance	X
Compliance Requirement Tested:	<ul style="list-style-type: none"> • Activities allowed • Allowable costs • Procurement, suspension and debarment
Questioned Cost:	\$3,163,184

Condition:

In testing compliance and internal controls over allowability and procurement and suspension and debarment requirements, we selected 780 disbursements from the programs listed above. The distribution of these disbursements was as follows:

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Program	CFDA NO.	Sample Dollar Amount
Child Nutrition Cluster	10.555; 10.559	\$ 3,763,422
Child and Adult Care	10.558	16,832,302
Adult Education - State Grant Program	84.002	916,153
Student Financial Assistance Cluster	84.375; 84.033; 84.007; 84.063	8,979,028
Title I Grants to Local Educational Agencies	84.01	5,862,392
Special Education Cluster	84.027;84.173	1,874,520
Vocational Education - Basic Grants to States	84.048	199,910
Safe and Drug Free Schools and Communities	84.186	4,756,188
Even Star Educational Agencies	84.213	568,913
Twenty-First Century Community Learning	84.287	1,723,209
Education Technology State Grants	84.318	5,967,964
Mathematic and Science Partnerships	84.366	3,284,165
Improving Teacher Quality State Grants	84.367	2,857,613
		\$ 57,585,779

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

Exceptions and Instances of Noncompliance

- A. No disbursement and/or procurement supporting documents were available for examination.
- B. Disbursements not properly supported because of disagreement between documents.
- C. No quote, bids or proposal was available for examination.
- D. No purchase order was available for examination.
- E. Purchase order was not duly authorized.
- F. Receiving report was not available for examination or did not indicate quantity received.
- G. No vendor invoice was available for examination.
- H. Vendor invoice was not approved for payment.
- I. Disbursement allocated to an incorrect cost objective.
- J. No report of work performed was available for examination.
- K. Subrecipient request of funds not properly supported.
- L. Less than three quotes were available for examination.
- M. Cost or price analysis does not support the action.
- N. No contract was available for examination.

After performing audit procedures, we noted the following:

CFDA 10.555 and 10.559 Child Nutrition Cluster

Voucher Number	Voucher Date	Amount	A	B	C	D	E	F	G	H	I	J	K	L	M	N	Questioned Costs
66999	8/13/2008	\$ 11,952			x												\$ 11,952
105491	2/18/2009	6,127			x												6,127
112923	3/26/2009	1,191	x		x	x	x		x							x	1,191
112935	3/26/2009	5,853			x												5,853
113901	3/31/2009	1,256			x												1,256
138274	6/30/2009	2,838			x												2,838
130709	9/11/2008	1,019			x												1,019
09AP9841	8/12/2008	1,290			x												1,290
			1		8	1	1		1							1	\$ 31,524

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

CFDA 84.002 Adult Education State Grant Program

Voucher Number	Voucher Date	Amount	A	B	C	D	E	F	G	H	I	J	K	L	M	N	Questioned Cost
09AP228E	8/28/2008	\$ 1,652	X														\$ 1,652
130904	6/10/2009	2,445	X														2,445
130818	6/10/2009	2,086		X													2,086
2 1																\$ 8,883	

CFDA 84.010 TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

Voucher Number	Voucher Date	Amount	A	B	C	D	E	F	G	H	I	J	K	L	M	N	Questioned Costs
128414	6/3/2009	1,700			X												\$ 1,700
134100	6/19/2009	1,997			X												1,997
2																\$ 3,697	

CFDA 84.027 SPECIAL EDUCATIONAL CLUSTER

Voucher Number	Voucher Date	Amount	A	B	C	D	E	F	G	H	I	J	K	L	M	N	Questioned Costs
09AP2288	7/31/2008	37,478	x		x				x								37,478
09AP2353	8/12/2008	35,491	x		x				x								35,491
78849	10/29/2008	105,461	x		x				x								105,461
80034	10/31/2008	7,310	x		x												-
80097	10/31/2008	13,606	x		x												-
83066	11/12/2008	3,990	x		x												-
83069	11/12/2008	21,730	x		x				x								21,730
84170	11/14/2008	57,726	x		x				x								57,726
97132	12/19/2008	126,128			x												-
99985	1/22/2009	1,665	x		x				x								1,665
108952	3/5/2009	59,261	x		x				x								59,261
113054	3/26/2009	47,471		x													-
117559	4/23/2009	1,800	x		x				x								1,800
119575	5/1/2009	1,329	x		x				x								1,329
119592	5/1/2009	2,990	x		x				x								2,990
123662	5/15/2009	4,900	x		x				x								4,900
130013	6/8/2009	43,790	x		x				x								43,790
130275	6/9/2009	4,603	x		x				x								4,603
16 2 16 13																\$ 378,225	

CFDA 84.048 VOCATIONAL EDUCATIONAL – BASIC GRANTS TO STATES

Voucher Number	Voucher Date	Amount	A	B	C	D	E	F	G	H	I	J	K	L	M	N	Questioned Costs
09AP1628	7/18/2008	\$ 1,000	X														\$ 1,000
09AP1631	7/18/2008	1,000	X														1,000
09AP1638	7/18/2008	1,000	X														1,000
81312	11/6/2008	1,000	X														1,000
92111	12/8/2008	11,815	X												X		11,815
97484	12/22/2008	1,000	X														1,000
102851	2/4/2009	7,050			X												7,050
117137	4/17/2009	4,726		X				X									4,726
102813	2/3/2009	1,000	X														1,000
8 1 1 1 1																\$ 29,591	

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

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

Voucher / JV Number	Voucher / JV Date	Voucher / JV Amount	A	B	C	D	E	F	G	H	I	J	K	L	M	N	Questioned Costs
123929	5/18/2009	\$ 55,675			X	X		X	X							X	\$ 55,675
93623	12/10/2008	396			X				X							X	396
103894	2/9/2009	33,750							X								33,750
103894	2/9/2009	21,012							X								21,012
110446	3/13/2009	24,170							X								24,170
110446	3/13/2009	28,325							X								28,325
110433	3/13/2009	5,721							X								5,721
09AP8827	7/10/2008	65,973			X											X	65,973
09AP939D	8/26/2008	17			X				X							X	17
09AP8513	7/7/2008	93,975			X				X							X	93,975
89932	12/3/2008	147,975			X				X							X	147,975
90016	12/3/2008	74,750			X				X							X	74,750
67489	9/2/2008	47,000			X			X	X							X	47,000
93260	12/9/2008	1,243	X														-
93260	12/9/2008	2,000	X														-
			2		9	1		2	19							8	\$ 598,740

CFDA 84.213 EVEN START- STATE EDUCATIONAL AGENCIES

Voucher Number	Voucher Date	Amount	A	B	C	D	E	F	G	H	I	J	K	L	M	N	Questioned Costs
66353	7/17/2008	\$ 229	X						X								\$ 229
66353	7/17/2008	17	X						X								17
96016	12/16/2008	1,750	X		X			X	X								1,750
110166	3/12/2009	50							X								50
66353	7/17/2008	20	X						X								20
64665	6/26/2008	64	X						X								64
			5		1		1		6								\$ 2,129

CFDA 84.287 Twenty- First Century Community Learning Centers

Voucher	Voucher Date	Amount	A	B	C	D	E	F	G	H	I	J	K	L	M	N	Questioned
66103	7/10/2008	\$ 3,900							X								\$ 3,900
69379	10/9/2008	32,597	X											X			32,597
69602	10/9/2008	32,597	X											X			32,597
69990	9/12/2008	18,750	X		X			X									18,750
70014	9/12/2008	10,500	X		X			X									10,500
71038	9/18/2008	28,684	X														28,684
75609	10/16/2008	3,578	X											X			-
87311	11/24/2008	2,500	X														-
111664	3/18/2009	2,100	X		X			X									2,100
113285	3/27/2009	16,295												X			-
116870	4/22/2009	3,488	X					X									3,488
09AP6024	7/24/2008	175	X														175
09AP6025	7/24/2008	175	X														175
127417	6/1/2009	6,400			X			X									6,400
78829	10/29/2008	4,350			X												4,350
79359	10/30/2008	7,250			X												7,250
81884	11/7/2008	9,984			X												9,984
121652	5/11/2009	10,980			X												10,980
121662	5/11/2009	13,725			X												13,725
121782	5/11/2009	7,320			X												7,320
			11		10				6						4		\$ 192,975

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

CFDA 84.367 Improving Teacher Quality

Voucher Number	Voucher Date	Amount	A	B	C	D	E	F	G	H	I	J	K	L	M	N	Questioned Costs
67744	9/3/2008	\$ 2,500	X		X			X	X								\$ 2,500
68217	9/4/2008	2,100	X														2,100
70020	9/12/2008	2,000	X		X			X	X								2,000
89524	12/3/2008	2,950	X														2,950
92100	12/8/2008	11,351	X		X			X	X								11,351
93413	12/10/2008	2,024	X		X			X	X								2,024
96810	12/18/2008	5,281			X			X									5,281
97776	1/13/2009	22,122			X			X									22,122
			6		6			6	4								\$ 50,328

Total Questioned Cost

\$ 3,163,184

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.

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 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. 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 documents, 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 or 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 Section 76.702 establishes that a state and a sub grantee shall use fiscal control and fund accounting procedures that ensure proper disbursement and accounting of federal funds.

Cause:

The exceptions mentioned above are the result of: a) deficiencies of the filing system and retrieval which does 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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

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 review of payment vouchers could result in noncompliance with federal regulations and cost disallowances by the grantors. Additionally, amounts disbursed for unallowable expenditures charged to the federal programs were not detected by the PRDE due to the lack of adequate controls.

Recommendation:

We recommend the PRDE to establish adequate procedures and controls, which shall consider, among others, the following:

- Maintain adequate documentation to support the allowability of its expenditures. The PRDE shall improve its internal controls over the filing and safeguarding of documents in order to easily identify and retrieve payment vouchers and all related supporting documentation.
- Establish and implement written policies and procedures for all aspects of the programs, including controls for proper review and authorization during the processing and payment of programs expenditures. Payment documents and related supporting documentation shall be thoroughly reviewed before they are recorded and processed for payment. All payment vouchers shall be properly authorized by the respective PRDE's representatives and shall be supported with all the required documentation.
- Provide adequate training to employees regarding each program requirements and proper disbursement processing procedures, and as to the importance of safeguarding procedures and the proper coordination and communication for the retrieval of documents when needed.

END FINDING NO. 2009-11

DEPARTMENT OF EDUCATION
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Finding 2009-12

Program CFDA No. / Grant No.:	<ul style="list-style-type: none"> • CFDA 10.558 Child and Adult Care Food Program • CFDA 84.010 Title I Grants to Local Educational Agencies • CFDA 84.027 Special Education – Grants to States • CFDA 84.287 Twenty-First Century Community Learning Centers • CFDA 84.367 Improving Teacher Quality State Grants
Type of Deficiency:	
Internal Control Over Financial Reporting:	
<ul style="list-style-type: none"> ○ Significant deficiencies ○ Material weakness 	
Compliance and other Matters	
Compliance	X
Internal Control Over Compliance	X
Compliance Requirement Tested:	Cash Management at SEA Level
Questioned Cost:	None

Condition:

The Commonwealth of Puerto Rico entered into an agreement with the U.S. Department of the Treasury for the fiscal year ended June 30, 2009 which prescribes specific methods of drawing down federal funds (funding techniques) for selected large programs. In the agreement, we observed that the funding technique applicable for the federal program Child and Adult Care Food Program, Adult Education, Title I Grants to Local Educational Agencies, Special Education – Grants to States, Twenty- First Century, and Improving Teacher Quality State Grants was the “Actual Clearance, ZBA – ACH” technique.

To determine compliance with the cash management agreement, we requested the petitions of funds for a sample of transactions for the major program. The sample consisted of 200 items with a dollar value of \$69,093,406. After performing the cash management test, we noted the following:

- a. For 45 of the 200 disbursements examined (23%), the request to Federal Government was submitted before the disbursement was realized.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Criteria:

31 CFR Section 205.11 (a) establishes that a State and a Federal Program Agency must minimize the time elapsing between the transfer of funds from the United States Treasury and the State's payout of funds for Federal assistance program purposes, whether the transfer occurs before or after the payout of funds.

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 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. 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 documents, etc.

Cause:

The noncompliance was caused due to a lack of effective internal controls over compliance with Cash Management requirements.

Effect:

Noncompliance with the above mentioned requirements could lead to administrative actions by the grantor. It could also be interpreted as a failure to manage federal awards in compliance with laws, regulations, and provisions of contracts and grant agreements.

Recommendation:

We recommend the PRDE to establish adequate procedures and controls, which shall consider, among others, the following:

- Maintain adequate documentation to support the funds requested. The PRDE shall improve its internal controls and identify the risk of non-compliance with cash management requirements in order to ascertain that the controls implemented will reduced the risk of non-compliance.
- Establish and implement written policies and procedures for the cash management process and the documents that should be filed as support of the funds requested.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Finding 2009-13

Program CFDA No. / Grant No.:	<ul style="list-style-type: none"> • CFDA 84.010 Title 1 Grant to Local Educational Agencies • CFDA 84.318 Education Technology State Grants
Type of Deficiency:	
Internal Control Over Financial Reporting:	
o Significant deficiencies	
o Material weakness	
Compliance and other Matters	
Compliance	X
Internal Control Over Compliance	X
Compliance Requirement Tested:	Property and Equipment at the Central level (SEA)
Questioned Cost:	None

Condition:

During the year ended June 30, 2009, total federal and state funds disbursed from major programs for property and equipment at the SEA Level amounted to \$26,775,451.57. To determine compliance with Equipment and Real Estate Property Management requirements, we obtained an understanding of state's policies and procedures in place at the Central Level (SEA). Then, we performed a test of controls to determine if: a) state's policies and procedures have been complied with; b) established controls are effective; and c) assess control risk. To perform the test of controls, we selected a random sample of disbursements of 64 items amounting to \$2,748,239.98 (10%), distributed as follows:

PROGRAM	CFDA NO.	EQUIPMENT DISBURSEMENT	SAMPLE DOLLAR AMOUNT	PERCENTAGE TESTED
ADULT EDUCATION -STATE GRANT PROGRAM	84.002	\$ 74,015.10	\$ 12,992.96	17.60%
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.01	19,386,805.07	16,424.99	0.10%
SPECIAL EDUCATION - GRANTS TO STATES	84.027	249,189.03	10,954.00	4.40%
VOCATIONAL EDUCATION- BASIC GRANTS TO STATES	84.048	608,860.48	63,037.00	10.40%
SAFE AND DRUF-FREE SCHOOLS AND COMMUNITIES - STATES GRANTS	84.186	65,300.00	65,300.00	100%
TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS	84.287	393,547.09	98,830.81	25.10%
EDUCATION TECHNOLOGY STATE GRANTS	84.318	2,886,575.74	2,444,945.22	84.70%
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	3,111,159.06	34,110.00	1.10%
		<u>\$ 26,775,451.57</u>	<u>\$ 2,746,594.98</u>	

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

After performing the test of controls, we noted the following exceptions:

1. For six (6) out of sixty four (64) disbursements examined, purchase supporting documents were not available for our examination.
2. For six (6) disbursements examine, the property custodian could not be found in the PRDE property register.

Criteria:

34 CFR Section 80.32 (b) establishes that a state will use, manage, and dispose of equipment acquired under a grant by the state in accordance with state laws and procedures.

34 CFR Section 80.40 (a) states that grantees are responsible for managing the day-to-day operations of grant and sub grant supported activities. Grantees must monitor grant and sub grant supported activities to assure compliance with applicable federal requirements, and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

34 CFR Section 80.20 (b) (3) establishes that effective control and accountability must be maintained for all grant and sub grant cash, real and personal property, and other assets. An effective internal control system over the acquisition and management of property should have a control structure in place in order to provide reasonable assurance that all property acquired with federal funds be properly managed and in compliance with the requirements established by both federal and local regulations.

Chapter VII of the PRDE Procedures for the Control and Accounting of Property Manual establishes that property records should identify the purchase order, date, total cost, units, percentage of federal participation and account code of items acquired.

Chapter X Section B of the Procedures for the Control and Accounting of Property Manual establishes that each item acquired should be properly identified. In addition, items acquired with federal funds should contain the name of the program that financed the acquisition.

Cause:

The noncompliance was caused due to a lack of effective internal controls over compliance with Property and Equipment requirements.

Effect:

The PRDE is exposed to the risk of possible unauthorized use and disposition of equipment due to the lack of internal controls and adequate property and equipment records. The PRDE has been unable to process and complete investigations commenced by the Puerto Rico Police Department since property information is not available or missing and there is no other mechanism to prosecute these cases or to recover the property involved.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

The possible misappropriation of the equipment could be significant because the PRDE owns many types and significant amounts of equipment. Also, the lack of adequate controls over property and equipment exposes the PRDE to cost disallowances.

Recommendation:

The PRDE shall establish adequate controls and procedures to be followed by the Property Division. New policies and procedures implemented must address all requirements established by state and federal regulations on property management.

Property records shall include the required information for equipment purchased with federal funds to improve accountability, control and to detect possible loss or theft of property.

END FINDING NO. 2009-13

DEPARTMENT OF EDUCATION
OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Finding 2009-14

Program CFDA No. / Grant No.:	CFDA 84.002 Adult Education State Grant Program
Type of Deficiency:	
Internal Control Over Financial Reporting:	
o Significant deficiencies	
o Material weakness	
Compliance and other Matters	
Compliance	X
Internal Control Over Compliance	X
Compliance Requirement Tested:	Eligibility
Questioned Cost:	Not Determinable

Condition:

Total beneficiaries participating in the program during the fiscal year ended June 30, 2009, were 34,019. We selected 60 beneficiaries' files for testing the beneficiary eligibility. During our test work we noted that:

1. For two (2) of the sixty (60) beneficiaries files reviewed, the file lacked evidence that the beneficiary is at least 16 years of age.
2. For one (1) of the sixty (60) beneficiaries files reviewed, the file lacked the beneficiary social security number.
3. For one (1) of the sixty (60) beneficiaries files reviewed, the file lacked the beneficiary eligibility certificate.
4. For two (2) of the sixty (60) beneficiaries files reviewed, the file lacked evidence that the beneficiary was not enrolled in secondary school.
5. For two (2) of the sixty (60) beneficiaries files reviewed, the file lacked the beneficiary Vaccine Certificate.

Criteria:

Eligible's beneficiaries are out-of-school adults who are sixteen (16) years of age and older, who are not enrolled or required to be enrolled in secondary school under State law, and who lack sufficient mastery of basic educational skills to enable them to function effectively in society or do not have a secondary school diploma or its recognized equivalent, and have not achieved an equivalent level of education, or are unable to speak, read, or write the English language.

DEPARTMENT OF EDUCATION
OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Cause:

The noncompliance was caused due to a lack of effective internal controls over compliance with beneficiary eligibility requirements.

Effect:

Failure to maintain adequate effective internal control over compliance related to program eligibility determination could lead to future noncompliance with program requirements and questioned costs.

Recommendation:

PRDE should re-emphasize, with the program personnel especially those responsible to make determinations about beneficiary's eligibility, the importance of maintaining adequate supporting documentation evidencing eligibility.

END FINDING NO. 2009-14

DEPARTMENT OF EDUCATION
OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Finding 2009-15

Program CFDA No. / Grant No.:	CFDA 84.002 Adult Education State Grant
Type of Deficiency:	
Internal Control Over Financial Reporting:	
o Significant deficiencies	
o Material weakness	
Compliance and other Matters	
Compliance	X
Internal Control Over Compliance	X
Compliance Requirement Tested:	Reporting
Questioned Cost:	None

Condition:

The PRDE submitted to USDE the final Financial Status Report (From SF-269) after the 90 calendar days required by the Federal Government.

Criteria:

The Education Department General Administration Regulations part 74.52 Financial Reporting establish that: the Secretary requires recipients to submit the SF-269 or SF-269A (an original and no more than two copies) no later than 30 days after the end of each specified reporting period for quarterly and semi-annual reports, and 90 calendar days for annual and final reports. Extensions of reporting due dates may be approved by the Secretary upon request of the recipient.

Accessibility of Reports.--Each State, each local board, and each recipient (other than a subrecipient, subgrantee, or contractor of a recipient) receiving funds under this title:

- (1) shall make readily accessible such reports concerning its operations and expenditures as shall be prescribed by the Secretary;

Cause:

The noncompliance was caused due to a lack of effective internal controls over compliance with Reporting requirements.

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OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Effect:

Since the PRDE is not complying with the completeness and accuracy in preparing the Financial Status Report (SF 269) submitted to USDE, the PRDE is exposed to received reprimand or sanctions by USDE.

Recommendation:

We recommend the PRDE to strengthen its internal control procedures in the preparation, supervision, review and submission of the federal reports (Standard Form 269) on a timely basis.

END FINDING NO. 2009-15

DEPARTMENT OF EDUCATION
OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Finding 2009-16

Program CFDA No. / Grant No.:	84.318 Education Technology State Grants
Type of Deficiency:	
Internal Control Over Financial Reporting:	
o Significant deficiencies	
o Material weakness	
Compliance and other Matters	
Compliance	X
Internal Control Over Compliance	X
Compliance Requirement Tested:	Sub-recipient Monitoring
Questioned Cost:	None

Condition:

During the year ended June 30, 2009, the PRDE monitored fifteen (16) subrecipients from the proposals approved from fiscal years 2004-05, 2005-06, 2006-07 and 2008-09 under the Education Technology State Grants program. To test compliance with the subrecipient monitoring requirements, we selected ten (10) of the subrecipients whose activities were monitored by the PRDE. After performing the subrecipient monitoring test, we noted the following instances of noncompliance:

- In one (1) of the ten monitoring files evaluated (10%), the subrecipient did not handed in to the PRDE the Corrective Action Plan.

Criteria:

Section 400 (d) (4) of the OMB Circular A-133 establishes that pass-through entities are responsible to ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

Clause 34 of the contract between the PRDE and the subrecipients establishes that the subrecipient should submit audited financial statements in accordance with generally accepted auditing standards.

34 CFR Section 80.40 (a) establishes that grantees are responsible for managing the day-to-day operations of grant and grant-supported activities to assure compliance with applicable federal requirements and that performance goals are being achieved. Grantees monitoring must cover each program, function or activity.

Cause:

Program's coordinators fail to reinforce monitoring procedures in order to ensure fulfillment of applicable federal compliance requirements

DEPARTMENT OF EDUCATION
OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Effect:

Inadequate monitoring procedures preclude the PRDE to prevent, detect, and correct significant instances of noncompliance that may expose the department to administrative actions by the grantor and/or questioned costs.

Recommendation:

PRDE should request from the sub-recipients the submission of the single audit report or a positive confirmation that A-133 single audit report is not required, and consider holding back funding until single audit report or the confirmation is received.

END FINDING NO. 2009-16

DEPARTMENT OF EDUCATION
OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Finding 2009-17

Program CFDA No. / Grant No.:	CFDA 84.287 Twenty First Century Community Learning Centers
Type of Deficiency:	
Internal Control Over Financial Reporting:	
o Significant deficiencies	
o Material weakness	
Compliance and other Matters	
Compliance	X
Internal Control Over Compliance	X
Compliance Requirement Tested:	Sub-recipient Monitoring
Questioned Cost:	Not Determinable

Condition:

Our review of a sample of twenty three (23) sub-recipients disclosed that for seven (7) of such sub-recipients the PRDE could not provide evidence that they have received timely corrective actions on deficiencies identified in monitoring activities.

Criteria:

OMB Circular A-133 requires a pass-through entity to be responsible for monitoring the activities of its sub-recipients, as necessary, to ensure federal awards are used for authorized purposes in compliance with laws, regulations and provisions of the contract or grant.

Cause:

Program's coordinators fail to reinforce monitoring procedures in order to ensure fulfillment of applicable federal compliance requirements.

Effect:

Inadequate monitoring procedures preclude the PRDE to prevent, detect, and correct significant instances of noncompliance that may expose the department to administrative actions by the grantor and/or questioned costs.

Recommendation:

PRDE should request from the sub-recipients the submission of the corrective action plans and consider holding back funding until corrective action plans are received from sub-recipients.

END FINDING NO. 2009-17

DEPARTMENT OF EDUCATION
OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Finding 2009-18

Program CFDA No. / Grant No.:	CFDA 84.002 Adult Education State Grant Program
Type of Deficiency:	
Internal Control Over Financial Reporting:	
o Significant deficiencies	
o Material weakness	
Compliance and other Matters	
Compliance	X
Internal Control Over Compliance	X
Compliance Requirement Tested:	Sub-recipient Monitoring
Questioned Cost:	Not Determinable

Condition:

Our review of the ten (10) sub-recipients for fiscal year 2008-2009 disclosed that for four (4) of such sub-recipients (40%) the PRDE could not provide evidence that performed oversight and monitoring procedures.

Criteria:

OMB Circular A-133 requires a pass-through entity to be responsible for monitoring the activities of its sub-recipients, as necessary, to ensure federal awards are used for authorized purposes in compliance with laws, regulations and provisions of the contract or grant.

Cause:

Program's coordinators fail to enforce monitoring procedures in order to ensure fulfillment of applicable federal compliance requirements.

Effect:

The absence of monitoring procedures precludes the PRDE to prevent, detect, and correct significant instances of noncompliance that may expose the department to administrative actions by the grantor and/or questioned costs.

Recommendation:

PRDE should perform monitoring procedures in all of its sub-recipients in order to prevent, detect, and correct significant instances of noncompliance that may expose the department to administrative actions by the grantor and/or questioned costs.

END FINDING NO. 2009-18

DEPARTMENT OF EDUCATION
OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Finding 2009-19

Program CFDA No. / Grant No.:	CFDA 84.002 Adult Education State Grant Program
Type of Deficiency:	
Internal Control Over Financial Reporting:	
o Significant deficiencies	
o Material weakness	
Compliance and other Matters	
Compliance	X
Internal Control Over Compliance	X
Compliance Requirement Tested:	Sub-recipient Monitoring
Questioned Cost:	Not Determinable

Condition:

Our review of the ten (10) sub-recipients for fiscal year 2008-2009 disclosed that for two (2) of such sub-recipients (20%) the audit files do not contained written management decisions.

Criteria:

OMB Circular A-133 requires pass-through entity to issue written management decisions on the audit findings contained in single audit reports within six (6) months of receiving the sub-recipient's single audit report.

Cause:

Program's coordinators fail to reinforce monitoring procedures in order to ensure fulfillment of applicable federal compliance requirements.

Effect:

Inadequate monitoring procedures preclude the PRDE to prevent, detect, and correct significant instances of noncompliance that may expose the department to administrative actions by the grantor and/or questioned costs.

Recommendation:

PRDE should issued written management decisions on the audit findings contained in single audits reports within six (6) months of receiving the sub-recipient's reports with its corresponding corrective action plans. The management decisions should describe the corrective actions the PRDE consider necessary based on its evaluation of the audit findings and corrective action plans contained in the single audit reporting package. Since pass-through entities are responsible for ensuring that the sub-recipients implement adequate corrective

DEPARTMENT OF EDUCATION
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

action, it is important for management to clearly communicate the PRDE's expectations and time frames for action through management decisions.

The issuance of a management decision is also critical because, based on OMB Circular A-133, award recipients may consider an audit finding invalid and not warranting further action if all the following have occurred:

- A management decision was not issued,
- Two (2) years have passed since the audit report in which the finding occurred was submitted to the Federal Audit Clearing House, and
- The federal agency or pass-through entity are not currently following up with the recipient on the audit finding.

END FINDING NO. 2009-19

DEPARTMENT OF EDUCATION
OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Finding 2009-20

Program CFDA No. / Grant No.:	CFDA 84.002 Adult Education State Grant Program
Type of Deficiency:	
Internal Control Over Financial Reporting:	
o Significant deficiencies	
o Material weakness	
Compliance and other Matters	
Compliance	X
Internal Control Over Compliance	X
Compliance Requirement Tested:	Sub-recipient Monitoring
Questioned Cost:	Not Determinable

Condition:

Our review of the ten (10) sub-recipients for fiscal year 2008-2009 disclosed that for two (2) sub-recipients, the audit files do not contained adequate documentation of the follow up on the implementation of corrective actions. Although the audit files contained some information relating to corrective actions, we found very little documentation or field office evaluations of and conclusions on the adequacy of the corrective actions taken by recipients.

Criteria:

OMB Circular A-133 requires awarding entity to provide the recipient with a timetable for implementing corrective action and to ensure that the award recipient takes appropriate and timely corrective actions.

Cause:

Program's coordinators fail to reinforce monitoring procedures in order to ensure fulfillment of applicable federal compliance requirements.

Effect:

The lack of documentation makes it difficult for management to ensure that program coordinators and award recipients are meeting their audit finding-related responsibilities in an appropriate and timely manner.

Recommendation:

PRDE should enforce its policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved.

END FINDING NO. 2009-20

DEPARTMENT OF EDUCATION
OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Finding 2009-21

Program CFDA No. / Grant No.:	CFDA 84.367 Improving Teacher Quality State Grants
Type of Deficiency:	
Internal Control Over Financial Reporting:	
o Significant deficiencies	
o Material weakness	
Compliance and other Matters	
Compliance	X
Internal Control Over Compliance	X
Compliance Requirement Tested:	Sub-recipient Monitoring
Questioned Cost:	Not Determinable

Condition:

Our review of a sample of four (4) sub-recipients disclosed that for one (1) (25%) of such sub-recipients the PRDE could not provide evidence that they have received timely corrective actions on deficiencies identified in monitoring activities.

Criteria:

OMB Circular A-133 requires a pass-through entity to be responsible for monitoring the activities of its sub-recipients, as necessary, to ensure federal awards are used for authorized purposes in compliance with laws, regulations and provisions of the contract or grant.

Cause:

Program's coordinators fail to reinforce monitoring procedures in order to ensure fulfillment of applicable federal compliance requirements.

Effect:

Inadequate monitoring procedures preclude the PRDE to prevent, detect, and correct significant instances of noncompliance that may expose the department to administrative actions by the grantor and/or questioned costs.

Recommendation:

PRDE should request from the sub-recipients the submission of the corrective action plans and consider holding back funding until corrective action plans are received from sub-recipients.

END FINDING NO. 2009-21

DEPARTMENT OF EDUCATION
OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Finding 2009-22

Program CFDA No. / Grant No.:	CFDA 84.007, 84.033, 84.063, 84.375 Student Financial Assistance Cluster
Type of Deficiency:	
Internal Control Over Financial Reporting:	
o Significant deficiencies	
o Material weakness	
Compliance and other Matters	
Compliance	X
Internal Control Over Compliance	X
Compliance Requirement Tested:	Special Test
Questioned Cost:	\$517

Condition:

In testing compliance with the return of Title IV funds requirement, we selected seven (7) participants of the Title IV Federal Financial Assistance programs (Pell Grant (PELL) and Federal Supplemental Educational Opportunity Grant (SEOG) and Academic Competitiveness Grant (ACG) from a total population of seven (7) students who withdrew, dropped-out, or failed to attend to the institution. During our evaluation of compliance with these requirements, we noted the following exception:

- In one (1) case, the PRDE used incorrect clock hours in the calculation worksheet for withdrew purpose.

Criteria:

34CFR section 668 established that:

- (e) Calculation of the amount of title IV assistance earned by the student:
- (1) General. The amount of title IV grant or loan assistance that is earned by the student is calculated by;
 - (2) Percentage earned. The percentage of title IV grant or loan assistance that has been earned by the student is;
 - (i) Equal to the percentage of the payment period or period of enrollment that the student completed as of the student's withdrawal date, if this date occurs on or before
 - (B) Sixty percent of the clock hours scheduled to be completed for the payment period or period of enrollment for a program that is measured in clock hours.

Cause:

These conditions were caused by inadequate internal controls and procedures to process the Return of Title IV Funds and that no adequate training, supervision and monitoring were conducted on the personnel working with the programs to comply with the applicable requirements.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Effect:

The PRDE could be depriving other eligible students from receiving Title IV funds on a timely manner.

Recommendation:

We recommend the PRDE to develop adequate standards and procedures to ascertain that the return of Title IV funds procedures is properly followed to ascertain compliance.

END FINDING NO. 2009-22

DEPARTMENT OF EDUCATION
OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Finding 2009-23

Program CFDA No. / Grant No.:	CFDA 84.007, 84.033, 84.063, 84.375 Student Financial Assistance Cluster
Type of Deficiency:	
Internal Control Over Financial Reporting:	
o Significant deficiencies	
o Material weakness	
Compliance and other Matters	
Compliance	X
Internal Control Over Compliance	X
Compliance Requirement Tested:	Special Test
Questioned Cost:	Not Determinable

Condition:

In testing the accounting records of the PRDE, we found that in two of the campuses (San Juan Tools and Dye School on Bayamon), the PRDE does not have a recordkeeping system that allows an easy audit trail of all transactions involving the processing of financial aid.

Criteria:

34 CFR Section 668.24 establishes that a school must keep comprehensive, accurate program and fiscal records related to its use of Financial Student Assistance (FSA) program funds. The importance of maintaining complete, accurate records cannot be overemphasized. Program and fiscal records must demonstrate the school is capable of meeting the administrative and fiscal requirements for participation in the FSA programs. In addition, records must demonstrate proper administration of FSA program funds and must show a clear audit trail for FSA program expenditures.

Cause:

The lack of an effective accounting system causes management errors and limitations at the moment of audit of monitoring process.

Effect:

Failure to maintain student accounts with the required detail make very difficult to audit the student financial transactions and could result in management errors in monitoring the Title IV funds granted to the students.

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OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Recommendation:

We recommend the review of the accounting system of this post-secondary institution to provide for a clear audit trail of sources and uses of federal funds and to allow for the tracing or tracking of funds to a level of expenditures adequate to verify that such federal funds have not been used in violation of the restriction and prohibitions of applicable laws and regulations.

END FINDING NO. 2009-23

DEPARTMENT OF EDUCATION
OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Finding 2009-24

Program CFDA No. / Grant No.:	CFDA 84.007, 84.033, 84.063, 84.375 Student Financial Assistance Cluster
Type of Deficiency:	
Internal Control Over Financial Reporting:	
o Significant deficiencies	
o Material weakness	
Compliance and other Matters	
Compliance	X
Internal Control Over Compliance	X
Compliance Requirement Tested:	Special Test
Questioned Cost:	Not Determinable

Condition:

During the fiscal year ended June 30, 2009, the PRDE disbursed federal funds under the Federal Pell Grant Program (PELL) for \$10,619,448 in benefit of 2,904 participants. In testing compliance with the requirements related to disbursement to or on behalf of students, we selected a random sample of forty four (44) participants of the FPELL program who were awarded \$169,834 (1.59%).

PRDE could not provided for our examination evidence that the corresponding disbursement was realized no later than fourteen (14) days after the balance occurred if the credit balance occurred after the first day of class of a payment period; or two (2) no later than fourteen (14) days after the first day of class of on or before the first day of class of that payment period.

Criteria:

34 CFR Section 668.164 (e) establishes that: whenever an institution disburses title IV, HEA program funds by crediting a student's account and the total amount of all 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 one (1) no later than fourteen (14) days after the balance occurred if the credit balance occurred after the first day of class of a payment period; or two (2) no later than fourteen (14) days after the first day of class of on or before the first day of class of that payment period.

Cause:

These conditions were caused by inadequate internal controls and procedures to process the payments of the students during the corresponding period and that no adequate training, supervision and monitoring were conducted on the personnel working with the programs to comply with the applicable requirements.

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OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FISCAL YEAR ENDED JUNE 30, 2009

Effect:

The PRDE could be depriving other eligible students from receiving Title IV funds on a timely manner.

Recommendation:

We recommend the PRDE to develop adequate standards and procedures for processing Title IV funds to students in a timely manner, but not later than fourteen (14) days after the resulting credit balance.

END FINDING NO. 2009-24

DEPARTMENT OF EDUCATION OF THE
COMMONWEALTH OF PUERTO RICO

REPORT ON THE STATUS OF UNCORRECTED MATERIAL FINDING AND
RECOMMENDATIONS FROM PRIOR AUDITS THAT AFFECT THE FINANCIAL STATEMENT
AUDITS AS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Finding No. 2008-01

Not corrected. At the date of our audit the PRDE continues to have deficiencies in its filing system and retrieval which do not provide for immediate identification of payment of disbursements.

DEPARTMENT OF EDUCATION OF THE
COMMONWEALTH OF PUERTO RICO

INDEPENDENT AUDITORS' CONCLUSION ON THE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

As part of the PRDE single audit, we follow up on prior year audit findings and performed procedures to assess the reasonableness of the Summary Schedule of Prior Audit Findings.

For the following prior year audit findings we report a current-year audit finding because we concluded that the summary schedule materially misrepresents the status of such findings:

Prior year audit finding number	Reported as current-year audit finding number	Reason for reporting as current-year audit finding the prior year audit finding
2008-03	2009-01 and 2009-02	Conditions found during 2008 single audit were present during 2009 audit. In addition, we disagree with the PRDE representation that the SIFDE system has been fully implemented.
2008-05	2009-06	As in the prior year, payments and other documents requested for examination frequently could not be located when needed.
2008-06	2009-10	As in the prior year, documentation was missing from the employees' files.
2008-09	2009-03, 2009-04 and 2009-05	As in the prior year, issues pertaining to the electronic data processing department regarding general controls, application controls, physical controls and other matters.
2008-10	2009-11	As in the prior year deficiencies in the filing system and retrieval which does not provide for immediate identification of payment supporting documentation continue to exist.
2008-14	2009-12	As in prior year, the noncompliance due to a lack of effective internal controls over Cash Management requirements continues to exist.
2008-16	2009-14	As in prior year, the noncompliance due to a lack of effective internal controls over compliance with beneficiary eligibility requirements continues to exist.
2008-27	2009-18, 2009-19 and 2009-20	As in prior year, Program's coordinators fail to reinforce monitoring procedures in order to ensure fulfillment of applicable federal compliance requirements.
2008-29	2009-17	As in prior year, Program's coordinators fail to reinforce monitoring procedures in order to ensure fulfillment of applicable federal compliance requirements.
2008-31	2009-21	As in prior year, Program's coordinators fail to reinforce monitoring procedures in order to ensure fulfillment of applicable federal compliance requirements.

DEPARTMENT OF EDUCATION OF THE
COMMONWEALTH OF PUERTO RICO
APPENDIX I

CORRECTIVE ACTION PLAN AND RESPONSE TO SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2009

Introduction to Corrective Action Plan and Responses to Single Audit Findings For the Year Ended June 30, 2009

Following are the responses to the findings reported by the external auditors (PKF International) of the Puerto Rico Department of Education (the Department) for the year ended June 30, 2009. The Department's management has made the best effort to address the matters reported by PKF, in accordance with the requirements of OMB Circular A-133, Section 315.

We wish to call your attention that the Department has considered all findings reported seriously and, as always, will look into processes that need to be improved to increase the reliability of the internal controls over compliance and over financial reporting.

Nevertheless, we have noted that certain findings or parts of findings do not provide the sufficient detail to allow the Department to prepare an appropriate corrective action plan. In conversations with PKF partner, we were instructed that – as appropriately discussed in our responses – the only supporting information for certain findings are the finding itself, and the Department did not receive any further evidence supporting the finding.

OMB Circular A-133 Section 510 (b) establishes that **“audit findings shall be presented in sufficient detail for the auditee to prepare a corrective action plan and take corrective action and for Federal agencies and pass-through entities to arrive at a management decision”**.

Accordingly, since the information in several findings appear not to meet the requirements of Section 510 (b) of OMB Circular A-133, the Department is unable to prepare a response specifically addressing the matters reported and, therefore, no specific action is deemed necessary for certain of these findings.

In summary, the Department continues its efforts in improving the use and administration of federal financial assistance, including addressing valid findings reported by federal and non-federal auditors. This has been evidence by the continued support from the US Department of Education through the audit resolution process that has been in place for several years.

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APPENDIX I

CORRECTIVE ACTION PLAN AND RESPONSE TO SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2009

Finding No:	2009-01
Topic:	Accounting Records
Federal Program:	Not Applicable
CFDA #:	Not Applicable
Questioned Costs:	None

Condition Found:

The auditors found the following conditions over financial reporting:

1. Inappropriate and/or incomplete financial data.
2. Delays in the processing of the accounting information.

PRDE Response to Finding:

Following is our response for each item.

1. First items is composed of two components:
 - a. **Finding** – Material adjustments posted after June 30, 2009 –
 - i. **Response – No specific action is deemed necessary.**
 - ii. **Underlying reason for response.** – The Department’s monthly and year-end closing procedures always require the posting of adjustments and are considered a normal process. The Puerto Rico Treasury Department, the fiscal agent of the Department, requires the posting of adjustments and corrections as part of the closing of the books for the Commonwealth as a whole. Therefore, the posting of material adjustments is part of the internal control over financial reporting for the Department as it allows its statement of cash receipts and disbursements to be fairly stated.
 - b. **Finding** – Amounts transferred to the Community Schools Administration and the Office for the Improvements of the Public Schools –
 - i. **Response – No specific action can be taken to address matter reported**
 - ii. **Underlying reason for response** – This finding does not provide sufficient detail to allow the Department to prepare a responsive corrective action plan. Even though we met with the external auditors to try to obtain details supporting the finding, the only information provided was that included within the finding.

As it is with all its key processes, the Department continues to oversee and improve its internal controls in all areas. The Department believes that its current oversight activities over these offices are appropriate to meet its responsibilities. The Department also believes to have adequate accountability for the funds transferred to these divisions, which are part of the Department for administrative purposes.

DEPARTMENT OF EDUCATION OF THE
COMMONWEALTH OF PUERTO RICO
APPENDIX I

CORRECTIVE ACTION PLAN AND RESPONSE TO SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2009

2. **Finding –** Delays in the processing of accounting information –
 - a. **Response – No specific action is deemed necessary**
 - b. **Underlying reason for the response –** This finding does not provide sufficient detail to allow the Department to prepare a responsive corrective action plan. Even though we met with the external auditors to try to obtain details supporting the finding, the only information provided was that included within the finding.

The Department accepts that we provided three trial balances. The underlying reason for that is that the Department identified significant adjustments that were posted and, therefore, the numbers changed. This is found to be an appropriate internal control over financial reporting because the Department proactively posted the necessary adjustments and corrections and provided the external auditors with accurate information to allow for their audit of the financial statement.

We also wish to indicate that this is customary in an organization of this size and complexity. Therefore, the normal closing process provides for the posting of adjustments and corrections required to prepare the financial statements in accordance with the cash basis method of accounting, which is the basis used to prepare the Department statement of cash receipts and cash disbursements.

DEPARTMENT OF EDUCATION OF THE
COMMONWEALTH OF PUERTO RICO
APPENDIX I

CORRECTIVE ACTION PLAN AND RESPONSE TO SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2009

Finding No:	2009-02
Topic:	Monitoring
Federal Program:	Not Applicable
CFDA #:	Not Applicable
Questioned Costs:	None

Condition Found:

During the performance of the audit tests, the auditors noted some factors related to PRDE's financial reporting monitoring activities.

PRDE Response to Finding:

PRDE partially disagrees with this finding. For the first item, which is related to the Standard People Soft audit tracks, it is necessary to mention that those tracks were substituted with a customized audit trail so that modified or customized transactions could be correctly traced. In addition to this tool, the information of the particular person who processed or deleted a transaction as well as the date when transaction occurred may be obtained through a query. This report will provide track of modified transactions.

For the second item, a revision for the application security document was initiated by PRDE in October 2009. Also, the procedure of creating access to SIFDE system has been already updated and is available upon review.

For the third item in the finding, PRDE does not agree with the auditor's statement, given that the information was and is available through each of the SIFDE applications.

The fourth item, which mentions that the unlocking of the SIFDE users' accounts were not adequate; PRDE is currently analyzing its unlocking control procedure manual in order to provide an appropriate response.

Related to the fifth item, concerning the investment PRDE has made of a Business Intelligence solution in order to provide key performance indicators as well as information to facilitate financial and programmatic decision making and operations; PRDE is evaluating the implementation of Business Objects in order to provide an appropriate response.

For the sixth item in the finding, the Internal Audit Office is aware of the importance of auditing PRDE's information technology system. For this reason, the Internal Audit Office has initiated its process of evaluating external Professional Services' proposals in order to assess the adequacy and operational effectiveness of key controls within IT to ensure that financial data processed is accurate and complete.

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For the last auditor statement of PRDE assigning a generic username to the Rock Solid Consultants; PRDE disagrees. Rock Solid was contracted as external parties, to performed a special project for PRDE, therefore all 7,470 human resources transactions mentioned by the auditor in the finding are the responsibility of the company as one single entity.

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Finding No:	2009-03
Topic:	Information Technology
Federal Program:	Not Applicable
CFDA #:	Not Applicable
Questioned Costs:	None

Condition Found:

PRDE has not implemented a Strategic plan for Information Technology approved by management.

PRDE Response to Finding:

PRDE currently has a Strategic plan for Information Technology approved by management. This plan has been active since 2007 and is current until 2012. Nonetheless, Information Technology strategies are currently being revised in order to achieve the new goals and expectations of the current administration. This is an on-going effort headed by PRDE CIO, Richard Cruz-Franqui.

Responsible person: Richardi Cruz-Franqui, PRDE CIO
Expected completion date: June 30, 2012

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Finding No:	2009-04
Topic:	Information Technology
Federal Program:	Not Applicable
CFDA #:	Not Applicable
Questioned Costs:	None

Condition Found:

The PRDE has not developed an Information Security Plan.

PRDE Response to Finding:

As part of the ongoing review of Information Technology strategy, the PRDE is looking forward to reinforce the current information security policies, including addressing the security officer responsibilities which have been impaired by staffing changes and the implementation of identity management software to help security effectiveness and efficiency by automating security administration tasks. The Oracle Identity Management software is currently under implementation and should be completed by fall 2010. This effort will be headed by PRDE OSIATD Director, José Narváez.

Responsible person: José Narváez, PRDE OSIAT Director
Expected completion date: November 30, 2010

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Finding No:	2009-05
Topic:	Information Technology
Federal Program:	Not Applicable
CFDA #:	Not Applicable
Questioned Costs:	None

Condition Found:

The PRDE has not implemented formal security policies.

PRDE Response to Finding:

The PRDE released a letter in July 22, 2008 (Circular 4-2008-2009) regarding technology and information usage. This letter includes policies for software licenses, purchases, portable storage usage, backup, internet/email usage, and user ID responsibilities/accountability, including disciplinary measures to be taken in the event of non-compliance. Although not all of the bullets detailed in the finding pertain to information security, PRDE believes that current information security policies should be organized into formal manuals for efficient reference and include any pertinent policies that are not currently in place. This effort will be headed by PRDE CACTE Director, Marie Ortiz.

Responsible person: Marie Ortiz, PRDE CACTE Director
Expected completion date: November 30, 2010

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Finding No:	2009-06
Topic:	Filing
Federal Program:	Not Applicable
CFDA #:	Not Applicable
Questioned Costs:	None

Condition Found:

During the performance of the audit tests, the auditors noted that the filing control procedures in place do not allow for the prompt retrieval of payments and other documents requested.

PRDE Response to Finding:

PRDE recognizes that some additional improvements could be done for the better tracking of documentation and the prompt submission of information upon request. Nevertheless, it is important to mention that some improvements have already been implemented, such as the following:

- a. Documents already located at the Filing Area are being scanned, reducing the paper volume and the need of additional filing space within PRDE premises.
- b. The invoicing process is being mechanized, therefore more documentation is now available in the system, and can be reproduced when requested.
- c. For information related to Asset Management, the PRDE has been working with a mechanized module where all the information related to property acquired at PRDE is entered. Information entered into the module includes, asset identification number, description, federal or state account used for the acquisition of the property, property location, cost and custodian.

The PRDE Finance Division, which is the area where most of the information is requested from during the financial audits, will be initiating a project that would lead to additional improvements in the area of filing. As a starting point for this additional effort, some personnel in this Division will be designated with a special task to make sure that the information that has already been filed and that the information that is in the process of being filed for the fiscal year 2009-2010, is properly organized and identified. Before the final files are sent to the Filing Area, supervisory personnel will be designated as well for the review and approval of the work performed for this purpose.

Responsible person: Nilda Morales, Property and Equipment Director
Expected completion date: June 30, 2010

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Finding No:	2009-07
Topic:	Data Classification Policy
Federal Program:	Not Applicable
CFDA #:	Not Applicable
Questioned Costs:	None

Condition Found:

The PRDE does not have a data classification policy and procedures to handling, labeling, controlling and review the wide agency information.

PRDE Response to Finding:

PRDE will initiate a study to provide a framework for managing data assets based on value and associated risks and for applying the appropriate levels of protection, as required by state and federal law as well as proprietary, ethical, operational, and privacy considerations. Additionally, PRDE will consult with legal counsel on the classification of data as Confidential, Agency-Sensitive, or Public. This effort will start with the new fiscal year (2010-2011) and should be completed during the same year.

Responsible person: Richardi Cruz-Franqui, PRDE CIO
Expected completion date: June 30, 2011

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Finding No:	2009-08
Topic:	Financial Statement Audit
Federal Program:	Not Applicable
CFDA #:	Not Applicable
Questioned Costs:	None

Condition Found:

During the course of the audit, the auditors tested 60 charges to state funds for compliance with state laws and regulations, internal controls over allowability and procurement requirement. As per the auditors, the following exceptions were noted:

1. In forty (40) cases examined, no procurement documents were provided for examination.
2. In fifty four (54) cases examined, no quote, bids, proposal or contract were provided for examination.

PRDE Response to Finding:

At the time of the audit, PRDE was unable to provide the evidence due to the limited amount of time for locating the information. Currently, some of the documentation reported as missing in this finding was subsequently located and are available for review. PRDE will continue with the efforts to locate the remaining documentation.

Responsible Person: Carmen Q. Rodriguez, Pre-intervention Director
Expected completion date: July 31, 2010

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Finding No:	2009-09
Topic:	Special Conditions – Compliance Agreement
Federal Program:	All
CFDA #:	Various
Questioned Costs:	Undeterminable

Condition Found:

On December 17, 2007, the USDE signed a Compliance Agreement (“the Agreement”) with the PRDE and the Commonwealth of Puerto Rico. This Agreement, lasting three years, is intended to provide an opportunity for the PRDE to address its systemic problems identified in prior and recent audits.

The auditors reviewed the documentation provided by the PRDE to support the action steps to be completed. After their examination, the auditors found that the PRDE failed to meet the following action steps:

E. Task 1.0: Title 1 – Standards and Assessments

4. Action Step: Administer the PPAA Writing Tests. - Attendance sheets were not available for examination.
5. Action Step: PPAA Spring 2009 Census Test Production- Census Test was not available for examination.
6. Action Step: Review the assessment data to document participation of all students in the assessments – PRDE did not provide reports that specify the participation rates and methods of calculation.

F. Task 3.0: Adequate Yearly Progress (AYP)

- 3) Action Step: Analyze Disseminate final 2009 AYP determinations - Electronic (DE Portal) notifications of school’s final AYP determination were not found.
- 4) Action Step: Provide follow up training to administrative staff as needed to ensure that all PRDE components understand the AYP requirements and the use of AYP to make school improvement decisions - PRDE did not provide copies of guidance on school improvements.

G. Task 4.0: Accountability Requirements

- 3) Action Step: Produce reports on findings from the spring 2008 administration and implement changes to ensure the improvement on quality control procedures – Monitoring reports were not available for examination.

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- 4) Action Step: Create a PRDE monitoring unit that will be responsible for monitoring the accuracy of assessment data to ensure that all students are being assessed appropriately on an annual basis – Copy of the new monitoring guidelines were not available for examination.

H. Task 13.0: Title IV of the Higher Education Act (HEA)

- 2) Action Step: PRDE will ensure compliance with Department regulations at 34CFR 668.23(d), implementing Title IV of the HEA, that require all schools receiving funds under the HEA to submit financial statements prepared on an accrual basis, in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Financial Statements prepared on an accrual basis were not submitted.

E. Task 16.0: Full Implementation of Internal Audit Office and Audit Committee

- 4) Action Step: Provide semiannual reports of all IAO activities available to the public through the internet side. URL address was not found.
- 5) Action Step: Prepare results and status of the correction actions and provide these reports to the Audit Committee, USDE and the public – Proof of the submitting to the public was not available.
- 6) The Committee will hold at least four meetings annually and will meet in separate executive sessions with PRDE management, independent auditors, and internal audit department representatives to review and resolve matters of concern presented to the committee – List of meetings with attendance sheets were not available for examination.

PRDE Response to Finding:

PRDE disagrees with this finding, for the finding concludes that PRDE did not provide the auditors with all of the documentation needed to verify PRDE's compliance. PRDE does have the requested documentation available. PRDE created a document repository that is constantly being populated with the supporting documents. The documentation that has not been uploaded is available at the different functional areas that are leading the initiatives.

The finding concludes there were delays under the Compliance Agreement. PRDE has worked hard to implement comprehensive and far reaching solutions to strengthen PRDE's management of its federal education grants from USDE. As USDE itself has recognized, PRDE has made significant progress in implementing these solutions. Adjustments to any timeline changes on items under the Compliance Agreement have been discussed with USDE.

Task 13.0: Title IV of the Higher Education Act (HEA)

The auditors stated that PRDE has not submitted the Financial Statements prepared on an accrual basis.

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PRDE partially disagrees with this statement for PRDE has continued to work in the implementation of the reporting financial statements on an accrual basis. PRDE identified methodologies for reporting financial statements on an accrual basis through the implementation of accounting software at the institutional level and quarterly reconciliation reports with SIFDE.

As of June 30, 2009 HEA financial reports were not due to USDE. According to July – September 2009 Quarterly Progress Report, HEA financial statements are to be presented by June 30, 2010.

Task 16.0: Full Implementation of Internal Audit Office and Audit Committee

PRDE recognizes that a fully implemented, empowered and independent Internal Audit Office (IAO) and Audit Oversight Committee are critical to ensuring compliance with federal requirements. The IAO and AOC serve important internal control functions and are an important resource in assessing PRDE's activities. PRDE is working under both the MOA and the 2007 Compliance Agreement to fully implement the internal audit function.

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Finding No:	2009-10
Topic:	Personnel Files
Federal Program:	Special Education Program
CFDA #:	84.027
Questioned Costs:	\$37,740

Condition Found:

The auditor tests the PRDE's compliance with the provision of Attachment B, Section 11 of the OMB Circular A-87 and the charges to federal awards to payroll and payroll related expenditures. The auditors selected for test a random sample of 60 employees. The sample was composed of 30 employees compensated with state funds and 30 with federal funds.

After the auditors tested whether PRDE followed appropriate standards related to payroll, the auditors noted certain issues related to personnel files and of four (4) teachers without licenses, one (1) of them were federal employees from which the annual payroll were questioned.

PRDE Response to Finding:

PRDE disagrees with this finding. PRDE believes that the missing documentation is available and will lead efforts for gathering all the information that was unable to provide to the external auditors at the time of audit.

Responsible person:	Richard Vazquez, Time Distribution Director
Expected completion date:	July 31, 2010

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Finding No:	2009-11
Topic:	Disbursement Test at the SEA Level
Federal Program:	Various
CFDA #:	Various
Questioned Costs:	\$3,163,184

Condition Found:

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

PRDE response to Finding:

PRDE has already gathered some of the documentation reported as missing by the auditor in the above mentioned finding and is available for review upon request. The total questioned costs that should be deleted from the information gathered are \$1.3 million. This amount represents 43% of total questioned costs in the finding. PRDE will continue its effort to locate the remaining documentation and will have it on hand for further reviews.

Responsible person: Nilda Morales, Property and Equipment Director
Expected completion date: June 30, 2010

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Finding No:	2009-12
Topic:	Cash Management at SEA Level
Federal Program:	Various
CFDA #:	Various
Questioned Costs:	None

Condition Found:

To determine compliance with the cash management agreement, the auditors requested the petitions of funds for a sample of 200 items with a dollar value of \$69,093,406. After performing the cash management test they noted the following:

- For forty five (45) of the disbursements examined, the request of funds to the Federal Government was submitted before the disbursement was realized.

PRDE Response to Finding:

PRDE agrees with this finding. PRDE is in process of implementing a procedure named: Early Warning System. The procedure consist that the Coordinator and Fiscal of the respective programs need monitoring the services and the invoicing process of the proposals granted. Each program should prepare a report at each month end. The main purpose of this process is to avoid retaining funds as assigned to project when they are not providing the services and in a reasonable time re-assigning the funds to other proposal that has the real commitment in offering the services. Also, the Early Warning System, for those subrecipients that offer services, will address to maintain a control of the invoicing process upon the services provided. This procedure will be useful in identifying an ineffective and inefficient uses of federal funds avoiding receiving a lot of invoices during the last quarter of the grant-term. Processing the invoices with a reasonable amount of time will allow that vendor/supplier received the disbursement before submitting the request of funds. This new procedure will improve the monitoring of the use of funds and will reduce the likelihood that funds are requested before expended. Therefore, PRDE is working with the correction of the deficiencies in order to be in compliance with the procedure.

Responsible person:	Judith Parilla, Reporting and Cash Management Supervisor
Expected completion date:	N/A

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Finding No:	2009-13
Topic:	Property and Equipment
Federal Program:	Various
CFDA #:	Various
Questioned Costs:	None

Condition Found:

To determine compliance with the Equipment and Real Estate Property Management requirement, the auditors selected disbursements of 64 items to perform the test of controls. After performing the test, the auditors noted the following exceptions:

- For six (6) out of sixty-four (64) disbursements examined, purchase supporting documents were not available for our examination.
- For six (6) out of sixty-four (64) disbursements examined, the property custodian could not be found in the PRDE property register.

PRDE Response to Finding:

PRDE agrees with the exceptions noted. PRDE has been working with these deficiencies and currently the accounting system, SIFDE, was modified in order that the application requires as mandatory to fill this information before registering the property and assign a property number. However, PRDE is in the process of gathering all of the missing information and update the accounting system.

Responsible person: Nilda Morales, Property and Equipment Director
Expected completion date: June 30, 2010

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Finding No:	2009-14
Topic:	Eligibility
Federal Program:	Adult Education – Basic State Grants
CFDA #:	84.002
Questioned Costs:	Not Determinable

Condition Found:

The auditors tested compliance with eligibility requirements for this program by randomly selecting 60 participant's files. The auditors noted the following:

1. For two (2) of the sixty (60) beneficiaries files reviewed, the file lacked evidence that the beneficiary is at least 16 years of age.
2. For one (1) of the sixty (60) beneficiaries files reviewed, the file lacked the beneficiary social security number.
3. For one (1) of the sixty (60) beneficiaries files reviewed, the file lacked the beneficiary eligibility certificate.
4. For two (2) of the sixty (60) beneficiaries files reviewed, the file lacked evidence that the beneficiary was not enrolled in secondary school.
5. For two (2) of the sixty (60) beneficiaries files reviewed, the file lacked the beneficiary Vaccine Certificate.

PRDE Response to Finding:

PRDE partially disagrees with this finding. We understand the auditors did not apply the appropriate statutory criteria regarding the documentation required to be in the participant's file to determine eligibility. As stated by the USDE officials in their FY04 PRDE Audit Repayment Agreement Findings Matrix, "*neither AEFLA nor any Department regulations or guidance on this issue require programs to obtain from participants birth certificates, social security cards, or vaccination records and transcript records*".

PRDE uses an application form to determine a participant's eligibility; however PRDE collects birth certificates and academic history records as part of its internal controls, but does not use this information as the primary tool to determine a participant's eligibility for the program.

Responsible person:	Damaris E. Pérez Gullón, Program Coordinator
Expected completion date:	N/A

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Finding No:	2009-15
Topic:	Reporting
Federal Program:	Adult Education – Basic State Grants
CFDA #:	84.002
Questioned Costs:	None

Condition Found:

The PRDE submitted to USDE the final Financial Status Report (From SF-269) after the 90 calendar days required by the Federal Government.

PRDE Response to Finding:

PRDE partially disagrees with this finding. PRDE recognizes that the report was submitted after the final due date, and will be enforcing the prompt request for extensions of reporting due dates to the US Department of Education. Nevertheless, PRDE understand that this situation is known to the awarding agency and does not represent a finding under the purposes of this report.

As explained in the A-133 Compliance Supplement of 2009, the audit objectives under the Compliance Requirement of Reporting are the following:

1. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §___.500(c).
2. Determine whether required reports for Federal awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with program requirements.

The following is a section of the Single Audit Compliance Program provided by PPC, which is information, decision support tool that provide guidance and software applications to accounting professional:

The auditor is only expected to test compliance for those requirements which are susceptible to testing by the auditor (i.e., the requirements can be evaluated against objective criteria, and the auditor can reasonably be expected to have sufficient basis for recognizing noncompliance). Further, the auditor would not be expected to test for compliance with requirements that the federal agency should have the ability to verify in the normal course of administering the program (e.g., if the requirement is that the non-federal entity must file a report by a certain date, the federal agency should know whether it received the report on time). Characteristics of compliance requirements that auditors are typically expected to test include those:

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- a. Which are practical to test.
- b. With objective criteria available for the auditor to assess compliance.
- c. Where an audit objective can be written that supports an opinion on compliance.
- d. When testing adds value, for example:
- e. It is likely that the auditor could document the noncompliance in a manner that (1) permits the federal or pass-through entity to take action, or (2) gives the federal or pass-through entity an early warning to initiate a monitoring visit or other contact with the non-federal entity. The federal or pass-through entity does not otherwise have information that verifies compliance.

Responsible person: Sheila Vazquez, Accounting Director
Estimated completion date: N/A

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Finding No:	2009-16
Topic:	Monitoring
Federal Program:	Education Technology State Grants
CFDA #:	84.318
Questioned Costs:	None

Condition Found:

During the year ended June 30, 2009, the PRDE monitored sixteen (16) subrecipients from the proposals approved from fiscal years 2004-05, 2005-06, 2006-07 and 2008-09 under the Education Technology State Grants program. The auditors selected ten (10) of the subrecipients whose activities were monitored by the PRDE. After performing the subrecipient monitoring test, the auditors noted the following:

In one (1) of the ten monitoring files evaluated (10%), the subrecipient did not handed in to the PRDE the Corrective Action Plan.

PRDE Response to Finding:

PRDE disagrees with this finding. PRDE performed corresponding monitoring activity on this subrecipient to ensure compliance with applicable federal requirements and subrecipient submitted Corrective Action Plan as requested by the Program. Corrective Action Plan is available upon request.

Responsible person:	Elsa Paz, Program Coordinator
Expected completion date:	N/A

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Finding No:	2009-17
Topic:	Monitoring
Federal Program:	Twenty First Century Community Learning Centers
CFDA #:	84.287
Questioned Costs:	None

Condition Found:

Our review of a sample of 23 subrecipients disclosed that for seven (7) of such subrecipients the PRDE could not provide evidence that they have received timely corrective actions on deficiencies identified in monitoring activities.

PRDE Response to Finding:

PRDE disagrees with this finding. In six (6) out of the seven (7) subrecipients mentioned in the finding, the written notifications received from the Program are considered of low level of importance. Low level of importance findings are considered recommendations given by the Monitoring Unit to the subrecipients in order to improve the services those provide to the Program's participants. For the remaining one (1) subrecipient, monitoring finding was considered relevant by PRDE, therefore a Corrective Action was indeed necessary. Personnel from this specific subrecipient project and personnel from the Program itself discussed the monitoring finding over the phone and they agreed that the monitoring finding did not proceed. At that time, the subrecipient was able to provide evidence to the Program's personnel to resolve the matter. The Program's personnel at PRDE understood no further sanctions were to be applied. Nevertheless, the personnel in charge of the project later submitted a report stating the status of the matter previously discussed.

For all seven (7) subrecipients PRDE received the Corrective Action Plans, even though those were received after the internally proposed period of twenty (20) days, as established in the Program's monitoring guides. The reason why PRDE does not agree with this finding is because PRDE did not perform follow up procedures in requesting the Corrective Action Plans from the subrecipients, which is also a step included within the Program's monitoring guide. PRDE also understands that the auditors should have been more inquisitive in the matters mentioned in the finding, therefore being able to understand the circumstances that caused the situations mentioned by them in the finding.

PRDE recognizes the importance of the monitoring process to ensure that the funds granted are properly used by the subrecipients, considering as well the importance of receiving timely corrective action plans.

Responsible person:	Sonia Arvelo, Program Coordinator
Expected completion date:	N/A

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Finding No:	2009-18
Topic:	Monitoring
Federal Program:	Adult Education – Basic State Grants
CFDA #:	84.002
Questioned Costs:	None

Condition Found:

Auditors review ten (10) subrecipients files for fiscal year 2008-2009 and stated that for four (4) of such subrecipients, PRDE could not provide evidence that performed oversight and monitoring procedures.

PRDE Response to Finding:

PRDE recognizes the importance of the monitoring process to ensure that the funds granted are properly used by subrecipients. Therefore, the Program's Coordinator has reinforced monitoring procedures in order to ensure fulfillment of applicable federal compliance requirements, and to make certain that performance goals are being achieved. Adult Education Program has prepared a monitoring schedule for the subrecipients mentioned in the above condition and monitoring activities will be realized for fiscal years 2008-09 and 2009-10.

Responsible person:	Damaris E. Pérez Gullón, Program Coordinator
Expected completion date:	May 31, 2010

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Finding No:	2009-19
Topic:	Monitoring
Federal Program:	Adult Education – Basic State Grants
CFDA #:	84.002
Questioned Costs:	None

Condition Found:

The auditors reviewed ten (10) subrecipients files for fiscal year 2008-2009 and disclosed that for two (2) of such subrecipients, the audit files do not contained written management decisions.

PRDE Response to Finding:

PRDE recognizes the importance of the monitoring process to ensure that the funds granted are properly used by subrecipients. Therefore, the Program's Coordinator will reinforce monitoring procedures in order to ensure fulfillment of applicable federal compliance requirements, and to make certain that performance goals are being achieved. PRDE has delivered the management decision on monitoring findings to the subrecipient. PRDE required the subrecipient to take immediate corrective actions on identified deficiencies and will be following up such matters. PRDE reflected the effects of subrecipient noncompliance in its records.

Responsible person:	Damaris E. Pérez Gullón, Program Coordinator
Expected completion date:	N/A

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Finding No:	2009-20
Topic:	Monitoring
Federal Program:	Adult Education – Basic State Grants
CFDA #:	84.002
Questioned Costs:	None

Condition Found:

The auditors reviewed ten (10) subrecipient files for fiscal year 2008-2009 and disclosed that for two (2) subrecipients; the audit files do not contained adequate documentation of the follow up on the implementation of corrective actions. Although the audit files contained some information relating to corrective actions, we found very little documentation or field office evaluations of and conclusions on the adequacy of the corrective actions taken by recipients.

PRDE Response to Finding:

PRDE recognizes the importance of the monitoring process to ensure that the funds granted are properly used by subrecipients. Therefore, the Program's Coordinator will reinforce monitoring procedures in order to ensure fulfillment of applicable federal compliance requirements, and to make certain that performance goals are being achieved.

Responsible person:	Damaris E. Pérez Gullón, Program Coordinator
Expected completion date:	N/A

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Finding No:	2009-21
Topic:	Monitoring
Federal Program:	Improving Teacher Quality State Grants
CFDA #:	84.367
Questioned Costs:	None

Condition Found:

The auditors reviewed four (4) subrecipient files and disclosed that for one (1) subrecipient, PRDE could not provide evidence that it has received timely corrective actions on deficiencies identified in monitoring activity.

PRDE response to Finding:

PRDE agrees with this finding. PRDE recognizes the importance of the monitoring process to ensure that the funds granted are properly used by subrecipients. PRDE will require the subrecipient to take immediate corrective actions on identified deficiencies and will be following up on such matters.

Responsible person:	Ana-Julia Cintrón, Equitable Services Program Coordinator
Expected completion date:	June 30, 2010

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APPENDIX I

CORRECTIVE ACTION PLAN AND RESPONSE TO SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2009

Finding No:	2009-22
Topic:	Return on Title IV Funds
Federal Program:	Student Financial Assistance Programs
CFDA #:	84.007, 84.033, 84.063 and 84.375
Questioned Cost:	\$517.25

Condition Found:

In testing compliance with the return of Title IV funds requirement, the auditor selected seven (7) participants of the Title IV Federal Financial Assistance programs (Pell Grant (PELL), Federal Supplemental Educational Opportunity Grant (SEOG) and Academic Competitiveness Grant (ACG) who withdrew, dropped-out, or failed to attend to the institution. During the evaluation of compliance with these requirements, the auditors noted the following exception:

- In one (1) case, the PRDE used an incorrect clock hours in the calculation worksheet for withdrew purpose.

PRDE Response to Finding:

PRDE agrees with this finding. Nevertheless, it is important to mention that the seven students selected by the auditor represent the entire population of students that withdrew, drop-out or fail to attend to the institution selected for testing. Therefore, the exception above represented an isolated case, caused by a human error.

PRDE is aware of the importance of complying with the proper return of Title IV funds and will be taking the necessary actions in order to avoid this type of error in the future.

Responsible person:	Carmen Zoé Ramirez, Program Coordinator
Expected completion date:	N/A

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CORRECTIVE ACTION PLAN AND RESPONSE TO SINGLE AUDIT REPORT
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Finding No:	2009-23
Topic:	Recordkeeping
Federal Program:	Student Financial Assistance Programs
CFDA #:	84.007, 84.033, 84.063 and 84.375
Questioned Costs:	Not Determinable

Condition Found:

In testing the accounting records of the PRDE, the auditors found that in two of the campuses (San Juan Tools and Dye School on Bayamon), the PRDE does not have a recordkeeping system that allows an easy audit trail of all transactions involving the processing of financial aid.

PRDE Response to Finding:

PRDE is working with the implementation of the application called Campus Information System (CIS) in order to manage the data related to student financial assistance. The implementation of this application in the campuses will contribute to the improvement in the productivity of the administrative personnel, accelerate processing time required, improve security and custody of the student files, reduce substantially the amount of paperwork and in turn save space; simplify access to and searching of the files for approved personnel in an electronic format, and generally improve overall administration and control of the procedures, confidentially and security regarding the privacy of the documents in the files of the students.

The customized application has already being created. Currently, PRDE is in the process of providing training to the personnel working with this program in order to begin the use of the application. PRDE estimates that the application could be fully implemented for the academic year 2010-2011.

Responsible person:	Carmen Zoé Ramirez, Program Coordinator
Expected completion date:	December 31, 2010

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CORRECTIVE ACTION PLAN AND RESPONSE TO SINGLE AUDIT REPORT
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Finding No:	2009-24
Topic:	Special Test- Disbursement Federal Pell Grant Program
Federal Program:	Student Financial Assistance Programs
CFDA #:	84.007, 84.033, 84.063 and 84.375
Questioned Costs:	Not Determinable

Condition Found:

PRDE disbursed federal funds under the Federal Pell Grant Program (PELL) for \$10,619,448 in benefit of 2,904 participants. In testing compliance with the requirements related to disbursement to or on behalf of students, the auditor selected a random sample of forty-four (44) participants of the FPELL program who were awarded \$169,834 (1.59%).

PRDE could not provide for the auditors examination evidence that the corresponding disbursement was realized no later than fourteen (14) days after the balance occurred if the credit balance occurred after the first day of class of a payment period; or two (2) no later than fourteen (14) days after the first day of class if the credit balance occurs on or before the first day of class of that payment period.

PRDE Response to Finding:

PRDE disagrees with this finding. PRDE provided all the evidence requested by the external auditors at the time of the audit and always was available. Currently, the evidence is still available for review. PRDE recognized that during the fiscal year a new Assistance Secretary for Vocational and Technical Education was appointed and need to be register as such in order to approve the payroll and that delayed the approval process. Currently, the new Assistance Secretary for Vocational and Technical Education has been registered and received the appropriate training related to the approval process. PRDE will evaluate the internal process in order to prepare the disbursement in an efficient manner.

Responsible person: Carmen Zoé Ramirez, Program Coordinator
Expected completion date: December 31, 2010

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PKF REBUTTALS TO PRDE
RESPONSE TO SINGLE AUDIT REPORT
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Introduction

All the findings presented on the Schedule of Findings and Questioned Costs provide the sufficient detail to allow the Department to prepare an appropriate corrective action plan.

OMB Circular A-133 Section 510 (b) establishes that "audit findings shall be presented in sufficient detail for the auditee to prepare a corrective action plan and take corrective action and for Federal agencies and pass-through entities to arrive at a management decision". In order to an OMB Circular A-133 finding to be presented in sufficient detail it will include the following specific information:

1. Federal program and specific Federal award identification including the CFDA title and number, Federal award number and year, name of Federal agency, and name of the applicable pass-through entity. When information, such as the CFDA title and number or Federal award number, is not available, the auditor shall provide the best information available to describe the Federal award.
2. The criteria or specific requirement upon which the audit finding is based, including statutory, regulatory, or other citation.
3. The condition found, including facts that support the deficiency identified in the audit finding. Prevalence and consequences of the audit findings, such as whether the audit findings represent an isolated instance or a systemic problem. Where appropriate, instances identified shall be related to the universe and the number of cases examined and quantified in terms of dollar value.
4. Identification of questioned costs and how they were computed.
5. Information to provide proper perspective for judging the prevalence and consequences of the audit findings, such as whether the audit findings represent an isolated instance or a systemic problem. Where appropriate, instances identified shall be related to the universe and the number of cases examined and is quantified in terms of dollar value.
6. The possible asserted effect to provide sufficient information to the auditee and Federal agency, or pass-through entity in the case of a subrecipient, to permit them to determine the cause and effect to facilitate prompt and proper corrective action.
7. Recommendations to prevent future occurrences of the deficiency identified in the audit finding.

All the 16 findings included in Section 3 (Federal Awards Findings) of the Schedule of findings and questioned costs include the specific information enumerated above. In addition, none of those findings were identified by PRDE as missing sufficient detail to allow the Department to prepare an appropriate corrective action plan.

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For financial audits, including audits of financial statements in which auditors provide an opinion or disclaimer, as is the case of the PRDE; auditors should report deficiencies in internal control. Assessing the significance of control deficiencies includes qualitative considerations such as public accountability of the audited entity, legal and regulatory requirements, the visibility and sensitivity of the entity or program, the needs of users and concerns of oversight officials, and current and emerging risks and uncertainties facing the government entity or entity that receives government funding. The significance of all of the control deficiencies included in the Section 2 (Financial Statements Findings) of the Schedule of Findings and Questioned Costs were assessed based on such considerations.

PKF partner met in two occasions (on April 5 and April 13, 2010), with PRDE representatives and a contractor appointed by the agency to discuss the audit findings with us, and prepare the corrective action plan. In those meetings the PKF partner discussed the 8 financial statements findings and how the findings were assessed. In both occasions the only person who made allegations that was unable to prepare a response specifically addressing the matters reported in the findings was the contractor. This contractor, for at least six years, has been the advisor of the PRDE, among others, in the following topics:

- Up-date accounting records;
- Timely obligation of funds;
- Roll-over of payroll accounts;
- Payroll reconciliation process; and
- Use of SIFDE accounting software.

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Finding No:	2009-01
Topic:	Accounting Records
Federal Program:	Not Applicable
CFDA #:	Not Applicable
Questioned Costs:	None

Condition: As occurred in 2007-2008, many transactions and adjustments are posted months after the applicable closing with a retroactive effect, due to delays in the processing of information, especially those related to payroll transactions.

PRDE response: No specific action is deemed necessary.

Underlying reason for response: The Department's monthly and year-end closing procedures always require the posting of adjustments and are considered a normal process. The Puerto Rico Treasury Department, the fiscal agent of the Department, requires the posting of adjustments and corrections as part of the closing of the books for the Commonwealth as a whole. Therefore, the posting of material adjustments is part of the internal control over financial reporting for the Department as it allows its statement of cash receipts and disbursements to be fairly stated.

PKF Rebuttal: We considered PRDE's response, but did not change our finding and recommendation. We maintain our position that inappropriate and/or incomplete financial data, cut-off procedures, as well as incomplete year-end reconciliation and closing procedures continue to exist. At present, many transactions are posted, in the PRDE accounting books months after the applicable closing, with a retroactive effect. This situation of posting transactions late, presents a significant problem because these transactions are misrepresented in the PRDE accounting records. In this context, the PRDE is not using correctly the interface between PRIFAS and SIFDE to track its specific accounting transactions and balances and because of this situation the PRDE does not know on a timely basis the status of its true financial position.

This finding has been reported in the PRDE's single audit reports since 1991. PRDE stated in its response to the 2003 single audit report that was working with the US Department of Education Cooperative Audit Resolution and Oversight Initiative (CAROI) to revise the internal policies and procedures to improve the controls and accountability over PRDE's assets and funds. Furthermore, in its response to the 2008 single audit report the PRDE stated that the agency was working to substantially strengthen its accounting records. However, the situation still persists in 2009.

Condition: As occurred in 2007-2008, the PRDE has incomplete fiscal controls and accounting procedures related to the amounts transferred to the Community Schools Administration and Office for the Improvement of the Public Schools which prevent the PRDE from having accurate, current and complete disclosure of the financial results of financially assisted activities in accordance with the grant agreements.

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PRDE Response: No specific action is deemed necessary.

Underlying reason for response – This finding does not provide sufficient detail to allow the Department to prepare a responsive corrective action plan. Even though we met with the external auditors to try to obtain details supporting the finding, the only information provided was that included within the finding.

PKF Rebuttal: We considered PRDE's response, but did not change our finding and recommendation. We maintain our position that incomplete fiscal controls and accounting procedures related to the amounts transferred to the Community Schools Administration and Office for the Improvement of the Public Schools which prevent the agency from having accurate, current and complete disclosure of the financial results of financially assisted activities in accordance with the grant agreements continue to exist. At present the funds transferred to the Community Schools Administration and Office for the Improvement of the Public Schools is not properly supported in the accounting records.

This finding has been reported in PRDE's single audit reports since 2000. However, the situation still persists in 2009.

Condition: Delays in the processing of the accounting information. As occurred in 2007-2008, the PRDE representatives submitted three (3) trial balances for auditing purposes of fiscal year 2008-2009 with material differences and it was not until march 2010 that the financial data and balance were to be audited was received by PKF auditors.

PRDE Response – No specific action is deemed necessary

Underlying reason for the response – This finding does not provide sufficient detail to allow the Department to prepare a responsive corrective action plan. Even though we met with the external auditors to try to obtain details supporting the finding, the only information provided was that included within the finding.

The Department accepts that they provided three trial balances for fiscal year 2008-2009. The underlying reason for that is that the Department identified significant adjustments that were posted and, therefore, the numbers changed. This is found to be an appropriate internal control over financial reporting because the Department proactively posted the necessary adjustments and corrections and provided the external auditors with accurate information to allow for their audit of the financial statements.

We also wish to indicate that this is customary in an organization of this size and complexity. Therefore, the normal closing process provides for the posting of adjustments and corrections required to prepare the financial statements in accordance with the cash basis method of accounting, which is the basis used to prepare the Department statement of cash receipts and cash disbursements.

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PKF Rebuttal: We considered PRDE's response, but did not change our finding and recommendation. The PRDE has significant weaknesses affecting its financial management systems. PRDE did not have adequate internal controls over its financial reporting process. Its general ledger system was not able to perform an automated year-end closing process and directly produce financial statements as would normally be expected from such systems. Because of these weaknesses, PRDE had to resort to a costly, labor-intensive, and time-consuming process involving manual and automated procedures to prepare the Statement of Cash Receipts and Cash Disbursements/ Statement of Cash Activities – Governmental Funds/ Governmental Activities for fiscal year 2009. In addition, PRDE had to rely heavily on the contractor services to help perform reconciliations among the various data sources used.

Our audit work has shown that the PRDE focused its efforts primarily on trying to develop short-term stop-gap measures designed to produce year-end balances rather than on the fundamental solutions that are needed to address the significant systems weaknesses affecting its financial management systems. As a result, the agency continue to experience pervasive material weaknesses in the design and operation of its financial management and related operational systems, accounting procedures, documentation, recordkeeping, and internal controls, including computer security controls. Consequently, the PRDE relied on costly, time-consuming procedures to determine year-end balances. This approach does not produce the timely and reliable financial and performance information needed for decision making on an ongoing basis. The existing approach is also inherently incapable of addressing the underlying financial management and operational issues that adversely affect the agency ability to fulfil its mission.

In summary, PRDE needs to be able to generate reliable, useful, and timely information on an ongoing basis to ensure adequate accountability, manage for results, and help decision makers make timely, well-informed judgments. It is critical that PRDE rises to the challenges posed by its financial management weaknesses because its success in achieving all aspects of its strategic objectives depends in part upon reliable financial management information and effective internal controls.

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Finding No:	2009-02
Topic:	Monitoring
Federal Program:	Not Applicable
CFDA #:	Not Applicable
Questioned Costs:	None

Condition: The audit standard option (AUDIT TRACKS) of PeopleSoft for SIFDE accounting application is deactivated.

PRDE Response – Those tracks were substituted with a customized audit trail so that modified or customized transactions could be correctly traced. In addition to this tool, the information of the particular person who processed or deleted a transaction as well as the date when transaction occurred may be obtained through a query. This report will provide track of modified transactions.

PKF Rebuttal: We considered PRDE's response, but did not change our finding and recommendation. We found no evidence that the audit standard option was substituted with a customized audit trail. The SIFDE SECURITY DELIVERABLE v. 1.4 (June 29, 2007) reads as follows in page 62:

Audit Track

Currently PeopleSoft audit standard option is not active. Both the implementation of PeopleSoft as Oracle database provides several options to establish audit mechanisms of the application. However, the activation of these control checks is controlled by system administrators. For this reason, it is important that any activation of auditing mechanisms must be communicated and worked in conjunction with the team of Oracle On-Demand. Refer to Oracle On-Demand Reference Guide.

Besides this document, we were not provided with another document (formally approved) indicating the implementation of a Customized Audit Track.

Condition: The PeopleSoft application security document is not updated nor is there a procedure for handling it. The PRDE must establish written rules and procedures in order to delineate the internal control measures, establish uniform standards for documentation and description of all programmatic functions. Once implemented, these procedures must be reviewed and updated according to changes in the SIFDE application. Not having an updated security document contributes to the failure in provide a consistent level of control throughout the PRDE.

PRDE Response – A revision for the application security document was initiated by PRDE in October 2009. Also, the procedure of creating access to SIFDE system has been already updated and is available for review.

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PKF Rebuttal: We recommend the PRDE to provide the 2010 audit external auditor the following evidence for the fiscal year 2008-2010 audit::

- a) The supporting documents for the change or modification of a "standard audit trail" to a "customized audit trail;
- b) A snap shop that show the changed parameters;
- c) The performed tests to show that the changes were made and were actually being recorded in an audit trail;
- d) Snap shop of the screens showing the audit trail of someone who modify and/or delete a transaction four or five times.

Condition: The finance office does not have a data dictionary for the database of the SIFDE application. The data dictionary is the repository of all data definitions for the SIFDE accounting application. Not having a data dictionary affects the effectiveness, efficiency and productivity of the different levels of users of the SIFDE application and, the integrity and availability of financial information itself.

PRDE Response – PRDE does not agree with the auditor's statement, given that the information was and is available through each of the SIFDE applications.

PKF Rebuttal: We considered PRDE's response and acknowledge that data dictionary for the database is available through each of the SIFDE applications.

Condition: Unlocking SIFDE users' accounts are not adequate. The unlocking control procedure states that locked accounts can only be unlocked with the assistance of the Security Administrator. Our audit revealed that the Helpdesk option also unlocks accounts.

PRDE Response – PRDE is currently analyzing its unlocking control procedures manual in order to provide an appropriate response.

PKF Rebuttal: None.

Condition: The PRDE has invested a significant amount of dollars in a Business Intelligence solution that provides key performance indicators as well as information to facilitate financial and programmatic decision making, and the managing of financial and programmatic operations on an ongoing basis. This tool which has been developed with Business Objects as the underlying technology has not been fully-deployed and is not in use by many of the financial and programmatic areas.

PRDE Response – PRDE is evaluating the implementation of Business Objects in order to provide an appropriate response.

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PKF Rebuttal: None.

Condition: The Internal Audit Office has not conducted an information technology audit to assess the adequacy and operational effectiveness of key controls within IT to ensure that financial data processed is accurate and complete.

PRDE Response – The Internal Audit Office is aware of the importance of auditing PRDE's information technology systems. For this reason, the Internal Audit Office has initiated its process of evaluating external proposals for professional services in order to assess the adequacy and operational effectiveness of key controls within IT to ensure that financial data processed is accurate and complete.

PKF Rebuttal: We considered PRDE's response. However, we determined that the response did not warrant a change to our finding and recommendation.

Condition: PRDE can not ensure that only valid transactions are initiated or entered into the STAFF application during fiscal year 2008-2009, in accordance with management's decisions and directives. The username ROCKSOLID, which belongs to the Rock Solid consultants group, a contractor of the PRDE, was used during fiscal year 2008-2009 to initiate or enter transactions on the STAFF human resources application. We found that 5,453 transactions affecting the Employee Master table were initiated or entered under the username ROCKSOLID. We also found that 2,017 transactions were initiated or entered under the username of Rocksolid in the LastChangedUser field. The usernames ROCKSOLID or RockSolid are generic and do not identify a particular person, therefore nobody can be accountable for the 7,470 human resources transactions initiated or entered in the STFF application during fiscal year 2008-2009.

PRDE Response – PRDE disagrees. Rock Solid was contracted as external parties, to perform a special project for PRDE, therefore all 7,470 human resources transactions mentioned by the auditor in the finding are the responsibility of the company as one single entity.

PKF Rebuttal: We considered PRDE's response. However, we determined that the response did not warrant a change to our finding and recommendation. In addition, the PRDE's response includes the following two aspects:

1. Rock Solid was contracted to initiate or enter transactions (which normally should be performed by the Department staff) into the STAFF application during fiscal year 2008-2009. If Rock Solid is authorized to undertake such transactions, the PRDE must submit the contract to demonstrate that such activity is within the scope of services for which the company was hired; and
2. The PRDE assigned to Rock Solid a generic user. This represents a serious weakness in the STAFF access control. Puerto Rico Office of Management and Budget (OGP in Spanish) Policy NÚM. TIG-003 establishes the following:

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E – General Controls: 1. Information and application programs used in the operations of the agency should have access controls for use in such a way that only authorized personnel can view the data you need to see, or use the application (or the applications) you need to use. These controls should include mechanisms for authentication and authorization (see Definition section).

Definitions – Authentication: The process by which person present information that identify him to an information system; and the system compares the information against its database for its validation.

L – Services Provided by Contractors: (1) It is necessary to maintain the security of the information systems even if the management and control of part or all of the processes has been delegated to a third party; (2) The contracts made with third parties must include the protection of sensitive assets, especially when the contracted services include the management of these assets outside the facilities of the Agency.

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PKF REBUTTALS TO PRDE
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Finding No:	2009-03
Topic:	Information Technology
Federal Program:	Not Applicable
CFDA #:	Not Applicable
Questioned Costs:	None

Condition: PRDE has not implemented a Strategic Plan for Information Technology approved by management.

PRDE Response: PRDE currently has a Strategic Plan for Information Technology approved by management. This plan has been active since 2007 and is current until 2012. Nonetheless, Information Technology strategies are currently being revised in order to achieve the new goals and expectations of the current administration.

PKF Rebuttal: We considered PRDE's response, but did not change our finding and recommendation. We found no evidence that PRDE currently has a Strategic plan for Information Technology approved by management. We recommend the PRDE to provide to the external auditor for the fiscal year 2009-2010 the Strategic Plan for Information Technology formally approved by management.

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Finding No:	2009-04
Topic:	Information Technology
Federal Program:	Not Applicable
CFDA #:	Not Applicable
Questioned Costs:	None

Condition: The PRDE has not developed an Information Security Plan.

PRDE Response: As part of the ongoing review of Information Technology strategy, the PRDE is looking forward to reinforce the current information security policies, including addressing the security officer responsibilities which have been impaired by staffing changes and the implementation of identity management software to help security effectiveness and efficiency by automating security administration tasks. The Oracle Identity Management software is currently under implementation and should be completed by fall 2010.

PKF Rebuttal: It is important to strengthen the information security policies, but also the PRDE must perform a risk analysis to add all those policies that are missing. The Security Information Officer is also important in implementing identity management software. However, a Plan or Information Security Program includes many other elements.

An information security program involves creating and maintaining a program to implement the strategy of information security. The strategy is the approach to achieving the objectives of security of information that supports the business goals of the Department. There are eleven (11) tasks within this area of work practice:

1. Develop and maintain plans to implement an information security strategy.
2. Specify the activities to be performed as part of information security.
3. Verify that the information security program is aligned with other areas of insurance (eg., Human Resources, Quality, Information Technology, Internal Audit, etc.).
4. Identify internal and external resources (eg. finance, personnel, equipment, systems, etc.).
5. Verify the development of information security architectures (eg. people, processes, technology)
6. Establish, communicate and maintain information security policies that support the security strategy.
7. Design and develop a program to promote awareness and training on information security.
8. Ensure the development, communication and maintenance of standards, procedures and other documentation (eg. guidelines, baselines, codes of conduct) that support the information security policies.
9. Integrate information security requirements into the processes of the organization (eg. change control, acquisition, etc.).
10. Develop a process to integrate information security controls in contracts (for example, external suppliers, external auditors, etc.).
11. Establish metrics to evaluate the effectiveness of the information security program.

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Finding No:	2009-05
Topic:	Information Technology
Federal Program:	Not Applicable
CFDA #:	Not Applicable
Questioned Costs:	None

Condition: The PRDE does not have implemented an Information Security Plan formally approved by management, including, at least, provisions regarding:

1. Development and maintenance of plans to implement the information security strategy.
2. The activities to be performed as part of the information security program.
3. The alignment of the information security program with other areas of assurance (e.g., human resources, internal audit function, IT).
4. The development of information security architectures (e.g. people, processes, technology).
5. The establishment and communication of the information security policies that support the security strategy.
6. The design and develop of a program to promote awareness and training on information security.
7. The development, communication and maintenance of standards, procedures and other documentation that support the information security policies.

PRDE Response: The PRDE released a letter on July 22, 2008 (Circular 4-2008-2009) regarding technology and information usage. This letter includes policies for software licenses, purchases, portable storage usage, backup, internet/email usage, and user ID responsibilities/accountability, including disciplinary measures to be taken in the event of non-compliance. Although not all of the bullets detailed in the finding pertain to information security, PRDE believes that current information security policies should be organized into formal manuals for efficient reference and include any pertinent policies that are not currently in place.

PKF Rebuttal: Although PRDE has documented some of their security policies in the Circular 4-2008-2009, however, this document lacks a set of policies that have been required by OGP and the Comptroller of PR. (See POLICY NO. TIG-003)

In addition to the policies listed in the OGP Policy NO. TIG-003 mentioned above, is the responsibility of PRDE to conduct a risk analysis to determine all the risks (at present) and develop policies aimed at them.

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Finding No:	2009-06
Topic:	Filing
Federal Program:	Not Applicable
CFDA #:	Not Applicable
Questioned Costs:	None

Condition: The filing control procedures in place do not allow for the prompt retrieval of payments and other documents requested.

PRDE Response: PRDE recognizes that some additional improvements could be made for the better tracking of documentation and the prompt submission of information upon request. Nevertheless, it is important to mention that some improvements have already been implemented, such as the following:

- a. Documents already located at the Filing Area are being scanned, reducing the paper volume and the need of additional filing space within PRDE premises.
- b. The invoicing process is being mechanized, therefore more documentation is now available in the system, and can be reproduced when requested.
- c. For information related to Asset Management, the PRDE has been working with a mechanized module where all the information related to property acquired at PRDE is entered. Information entered into the module includes, asset identification number, description, federal or state account used for the acquisition of the property, property location, cost and custodian.

The PRDE Finance Division, which is the area where most of the information is requested from during the financial audits, will be initiating a project that would lead to additional improvements in the area of filing. As a starting point for this additional effort, some personnel in this Division will be designated with a special task to make sure that the information that has already been filed and that the information that is in the process of being filed for the fiscal year 2009-2010, is properly organized and identified. Before the final files are sent to the Filing Area, supervisory personnel will be designated as well for the review and approval of the work performed for this purpose.

PKF Rebuttal: We considered PRDE's response. However, we determined that the response did not warrant a change to our finding and recommendation. In addition, if fully implemented, the project will help PRDE Finance Division in the prompt retrieval of payments and other documents requested by external auditors.

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Finding No:	2009-07
Topic:	Data Classification Policy
Federal Program:	Not Applicable
CFDA #:	Not Applicable
Questioned Costs:	None

Condition: The PRDE does not have a data classification policy and procedures to handling, labeling, controlling and review the wide agency information.

PRDE Response: PRDE will initiate a study to provide a framework for managing data assets based on value and associated risks and for applying the appropriate levels of protection, as required by state and federal law as well as proprietary, ethical, operational, and privacy considerations. Additionally, PRDE will consult with legal counsel on the classification of data as Confidential, Agency-Sensitive, or Public.

PKF Rebuttal: None.

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Finding No:	2009-08
Topic:	Financial Statement Audit
Federal Program:	Not Applicable
CFDA #:	Not Applicable
Questioned Costs:	None

Condition: In a sample of 60 charges to state funds for compliance with state laws and regulations, internal controls over allowability and procurement requirement, the following exceptions were noted:

1. In forty (40) cases examined, no procurement documents were provided for examination.
2. In fifty four (54) cases examined, no quote, bids, proposal or contract were provided for examination.

PRDE Response: At the time of the audit, PRDE was unable to provide the evidence due to the limited amount of time for locating the information. Currently, some of the documentation reported as missing in this finding was subsequently located and are available for review. PRDE will continue with the efforts to locate the remaining documentation.

PKF Rebuttal: We recommend the PRDE to provide the 2010 audit external auditor the evidence missing.

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Finding No:	2009-09
Topic:	Special Conditions – Compliance Agreement
Federal Program:	All
CFDA #:	Various
Questioned Costs:	Undeterminable

Condition: On December 17, 2007, the USDE signed a Compliance Agreement (“the Agreement”) with the PRDE and the Commonwealth of Puerto Rico. This Agreement, whose term is three years, is intended to provide an opportunity for the PRDE to address its systemic problems identified in prior and recent audits. PKF auditors reviewed the documentation provided by the PRDE to support the action steps to be completed. After their examination, PKF auditors noted that the PRDE failed to meet the following action steps:

A. Task 1.0: Title 1 – Standards and Assessments

1. Action Step: Administer the PPAA Writing Tests. - Attendance sheets were not available for examination.
2. Action Step: PPAA Spring 2009 Census Test Production- Census Test was not available for examination.
3. Action Step: Review the assessment data to document participation of all students in the assessments – PRDE did not provide reports that specify the participation rates and methods of calculation.

B. Task 3.0: Adequate Yearly Progress (AYP)

1. Action Step: Analyze Disseminate final 2009 AYP determinations - Electronic (DE Portal) notifications of school’s final AYP determination were not found.
2. Action Step: Provide follow up training to administrative staff as needed to ensure that all PRDE components understand the AYP requirements and the use of AYP to make school improvement decisions - PRDE did not provide copies of guidance on school improvements.

C. Task 4.0: Accountability Requirements

1. Action Step: Produce reports on findings from the spring 2008 administration and implement changes to ensure the improvement on quality control procedures – Monitoring reports were not available for examination.
2. Action Step: Create a PRDE monitoring unit that will be responsible for monitoring the accuracy of assessment data to ensure that all students are being assessed appropriately on an annual basis – Copy of the new monitoring guidelines were not available for examination.

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D. Task 13.0: Title IV of the Higher Education Act (HEA)

1. Action Step: PRDE will ensure compliance with Department regulations at 34CFR 668.23(d), implementing Title IV of the HEA, that require all schools receiving funds under the HEA to submit financial statements prepared on an accrual basis, in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Financial Statements prepared on an accrual basis were not submitted.

E. Task 16.0: Full Implementation of Internal Audit Office and Audit Committee

1. Action Step: Provide semiannual reports of all IAO activities available to the public through the internet side. URL address was not found.
2. Action Step: Prepare results and status of the correction actions and provide these reports to the Audit Committee, USDE and the public – Proof of the submitting to the public was not available.
3. The Committee will hold at least four meetings annually and will meet in separate executive sessions with PRDE management, independent auditors, and internal audit department representatives to review and resolve matters of concern presented to the committee – List of meetings with attendance sheets were not available for examination.

PRDE Response: PRDE disagrees with this finding, for the finding concludes that PRDE did not provide the auditors with all of the documentation needed to verify PRDE's compliance. PRDE does have the requested documentation available. PRDE created a document repository that is constantly being populated with the supporting documents. The documentation that has not been uploaded is available at the different functional areas that are leading the initiatives.

The finding concludes there were delays under the Compliance Agreement. PRDE has worked hard to implement comprehensive and far reaching solutions to strengthen PRDE's management of its federal education grants from USDE. As USDE itself has recognized, PRDE has made significant progress in implementing these solutions. Adjustments to any timeline changes on items under the Compliance Agreement have been discussed with USDE.

PKF Rebuttal: Although we considered PRDE's comments, we maintain that, all the documentation needed to verify compliance was not available when we performed the documentation review for the 2009-2010 audit.

Task 13.0: Title IV of the Higher Education Act (HEA)

The auditors stated that PRDE has not submitted the Financial Statements prepared on an accrual basis.

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PRDE Response: PRDE partially disagrees with this statement for PRDE has continued to work in the implementation of the reporting financial statements on an accrual basis. PRDE identified methodologies for reporting financial statements on an accrual basis through the implementation of accounting software at the institutional level and quarterly reconciliation reports with SIFDE. As of June 30, 2009 HEA financial reports were not due to USDE. According to July – September 2009 Quarterly Progress Report, HEA financial statements are to be presented by June 30, 2010.

PKF Rebuttal: Although we considered PRDE's comments, we maintain that, the agency fail to reach the goal of complete task 13.0: Title IV of the Higher Education Act (HEA) on March 31, 2009. This situation does not permitted the PRDE to submit financial statements prepared on an accrual basis at June 30, 2009. During July 2009, PRDE established the policies and drafted the procedures manual to be implemented for reporting financial statements on an accrual basis. At the date of our review the procedures manual had not been implemented and the financial statements on the accrual basis were not prepared.

Task 16.0: Full Implementation of Internal Audit Office and Audit Committee

PRDE Response: PRDE recognizes that a fully implemented, empowered and independent Internal Audit Office (IAO) and Audit Oversight Committee (AOC) are critical to ensuring compliance with federal requirements. The IAO and AOC serve important internal control functions and are an important resource in assessing PRDE's activities. PRDE is working under both the MOA and the 2007 Compliance Agreement to fully implement the internal audit function.

PKF Rebuttal: Although we considered PRDE's comments, we maintain that, PRDE failed to meet the following action steps:

- 1) Prepare semiannual reports of all IAO activities available to the public through the internet site. *URL address was not found.*
- 2) Prepare results and status of the correction actions executed/in progress and provide these reports to the Audit Oversight (AOC) Committee, USDE and the public – *Proof of the submitting to the public was not available.*
- 3) The AOC will hold at least four meetings annually and will meet in separate executive sessions with PRDE management, independent auditors, and internal audit department representatives to review and resolve matters of concern presented to the committee – *List of meetings with attendance sheets were not available for our examination.*

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Finding No:	2009-10
Topic:	Personnel Files
Federal Program:	Special Education Program
CFDA #:	84.027
Questioned Costs:	\$37,740

Condition: The auditor tested the PRDE's compliance with the provision of Attachment B, Section 11 of the OMB Circular A-87 and the charges to federal awards to payroll and payroll related expenditures. PKF auditors selected for test a random sample of 60 employees. The sample was composed of 30 employees compensated with state funds and 30 with federal funds. After the auditors tested whether PRDE followed appropriate standards related to payroll, PKF auditors noted certain issues related to personnel files and of four (4) teachers without licenses, one (1) of them was a federal employees from which the annual payroll were questioned.

PRDE Response: PRDE disagrees with this finding. PRDE believes that the missing documentation is available and will lead efforts for gathering all the information that was unable to provide to the external auditors at the time of audit.

PKF Rebuttal: Although we considered PRDE's comments, we maintain that, all the documentation needed to verify compliance with the provision of Attachment B, Section 11 of the OMB Circular A-87 and the charges to federal awards to payroll and payroll related expenditures was not available when we performed the documentation review for the 2009-2010 audit. However, we recommend the PRDE to provide the missing documentation to the 2010 audit external auditor or return to the US Department of Education the \$37,740 in questioned costs.

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Finding No:	2009-11
Topic:	Disbursement Test at the SEA Level
Federal Program:	Various
CFDA #:	Various
Questioned Costs:	\$3,163,184

Condition: In testing compliance and internal control over allowability and procurement and suspension and department requirements, PKF auditors selected disbursements from various programs and some exceptions were noted.

PRDE response: PRDE has already gathered some of the documentation reported as missing by the auditor in the above mentioned finding and is available for review upon request. The total questioned costs that should be deleted from the information gathered are \$1.3 million. This amount represents 43% of total questioned costs in the finding. PRDE will continue its effort to locate the remaining documentation and will have it on hand for further reviews.

PKF Rebuttal: We considered PRDE's response. However, we determined that the response did not warrant a change to our finding and recommendation. In addition, we recommend the PRDE to provide the missing documentation to the 2010 external auditor or return to the US Department of Education the amount of questioned costs.

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Finding No:	2009-12
Topic:	Cash Management at SEA Level
Federal Program:	Various
CFDA #:	Various
Questioned Costs:	None

Condition: To determine compliance with the cash management agreement, PKF auditors requested the petitions of funds for a sample of 200 items with a dollar value of \$69,093,406. After performing the cash management tests they noted the following:

- In forty five (45) of the disbursements examined, the request of funds to the Federal Government was submitted before the disbursement was realized.

PRDE Response: PRDE agrees with this finding. PRDE is in process of implementing a procedure named: Early Warning System. The procedure consist that the Coordinator and Fiscal of the respective programs need monitoring the services and the invoicing process of the proposals granted. Each program should prepare a report at each month end. The main purpose of this process is to avoid retaining funds as assigned to project when they are not providing the services and in a reasonable time re-assigning the funds to other proposal that has the real commitment in offering the services. Also, the Early Warning System, for those subrecipients that offer services, will address to maintain a control of the invoicing process upon the services provided. This procedure will be useful in identifying an ineffective and inefficient uses of federal funds avoiding receiving a lot of invoices during the last quarter of the grant-term. Processing the invoices with a reasonable amount of time will allow that vendor/supplier received the disbursement before submitting the request of funds. This new procedure will improve the monitoring of the use of funds and will reduce the likelihood that funds are requested before expended. Therefore, PRDE is working with the correction of the deficiencies in order to be in compliance with the procedure.

PKF Rebuttal: None

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Finding No:	2009-13
Topic:	Property and Equipment
Federal Program:	Various
CFDA #:	Various
Questioned Costs:	None

Condition: To determine compliance with the Equipment and Real Estate Property Management requirement, PKF auditors selected disbursements for 64 items to perform the tests of controls. After performing the tests, PKF auditors noted the following exceptions:

- For six (6) out of sixty-four (64) disbursements examined, purchase supporting documents were not available for our examination.
- For six (6) out of sixty-four (64) disbursements examined, the property custodian could not be found in the PRDE property register.

PRDE Response: PRDE agrees with the exceptions noted. PRDE has been working with these deficiencies and currently the accounting system, SIFDE, was modified in order that the application requires as mandatory to fill this information before registering the property and assign a property number. However, PRDE is in the process of gathering all of the missing information and update the accounting system.

PKF Rebuttal: None

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Finding No:	2009-14
Topic:	Eligibility
Federal Program:	Adult Education – Basic State Grants
CFDA #:	84.002
Questioned Costs:	Not Determinable

Condition: PKF auditors tested compliance with eligibility requirements for this program by randomly selecting 60 participant's files. The auditors noted the following:

1. For two (2) of the sixty (60) beneficiaries files reviewed, the file lacked evidence that the beneficiary is at least 16 years of age.
2. For one (1) of the sixty (60) beneficiaries files reviewed, the file lacked the beneficiary social security number.
3. For one (1) of the sixty (60) beneficiaries files reviewed, the file lacked the beneficiary eligibility certificate.
4. For two (2) of the sixty (60) beneficiaries files reviewed, the file lacked evidence that the beneficiary was not enrolled in secondary school.
5. For two (2) of the sixty (60) beneficiaries files reviewed, the file lacked the beneficiary Vaccine Certificate.

PRDE Response: PRDE partially disagrees with this finding. We understand the auditors did not apply the appropriate statutory criteria regarding the documentation required to be in the participant's file to determine eligibility. As stated by the USDE officials in their FY04 PRDE Audit Repayment Agreement Findings Matrix, "*neither AEFLA nor any Department regulations or guidance on this issue require programs to obtain from participants birth certificates, social security cards, or vaccination records and transcript records*".

PRDE uses an application form to determine a participant's eligibility; however PRDE collects birth certificates and academic history records as part of its internal controls, but does not use this information as the primary tool to determine a participant's eligibility for the program.

PKF Rebuttal: We considered PRDE's response. However, we determined that the response did not warrant a change to our finding and recommendation. The Adult Education Basic Grants to State Program is authorized by the Adult Education and Family Literacy Act (the Act), Title II of the Workforce Investment Act of 1998 (Pub. L. No. 105-220 (20 USC 9201 *et seq.*)). To determine that a participant is adult and thus eligible to the program the following definition is applied:

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“Adults include individuals who are at least 16 years of age, who are not enrolled or required to be enrolled in secondary school under State law; and who lack sufficient mastery of basic educational skills, do not have a secondary school diploma or its recognized equivalent, or are unable to speak, read, or write the English language”.

Except for the social security number and the vaccination records, all of the other criteria tested is necessary to determine the eligibility of the participants.

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Finding No:	2009-15
Topic:	Reporting
Federal Program:	Adult Education – Basic State Grants
CFDA #:	84.002
Questioned Costs:	None

Condition: The PRDE submitted to USDE the final Financial Status Report (From SF-269) after the 90 calendar days required by the Federal Government.

PRDE Response: PRDE partially disagrees with this finding. PRDE recognizes that the report was submitted after the final due date, and will be enforcing the prompt request for extensions of reporting due dates to the US Department of Education. Nevertheless, PRDE understand that this situation is known to the awarding agency and does not represent a finding under the purposes of this report. As explained in the A-133 Compliance Supplement of 2009, the audit objectives under the Compliance Requirement of Reporting are the following:

1. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c).
2. Determine whether required reports for Federal awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with program requirements.

The following is a section of the Single Audit Compliance Program provided by PPC, which is information, decision support tool that provide guidance and software applications to accounting professional:

The auditor is only expected to test compliance for those requirements which are susceptible to testing by the auditor (i.e., the requirements can be evaluated against objective criteria, and the auditor can reasonably be expected to have sufficient basis for recognizing noncompliance). Further, the auditor would not be expected to test for compliance with requirements that the federal agency should have the ability to verify in the normal course of administering the program (e.g., if the requirement is that the non-federal entity must file a report by a certain date, the federal agency should know whether it received the report on time). Characteristics of compliance requirements that auditors are typically expected to test include those:

- a. Which are practical to test.
- b. With objective criteria available for the auditor to assess compliance.
- c. Where an audit objective can be written that supports an opinion on compliance.

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- d. When testing adds value, for example: It is likely that the auditor could document the noncompliance in a manner that (1) permits the federal or pass-through entity to take action, or (2) gives the federal or pass-through entity an early warning to initiate a monitoring visit or other contact with the non-federal entity. The federal or pass-through entity does not otherwise have information that verifies compliance.

PKF Rebuttal: We considered PRDE's response. However, we determined that the response did not warrant a change to our finding and recommendation.

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Finding No:	2009-16
Topic:	Monitoring
Federal Program:	Education Technology State Grants
CFDA #:	84.318
Questioned Costs:	None

Condition: During the fiscal year ended June 30, 2009, the PRDE monitored sixteen (16) subrecipients from the proposals approved for fiscal years 2004-05, 2005-06, 2006-07 and 2008-09 under the Education Technology State Grants program. The auditors selected ten (10) of the subrecipients whose activities were monitored by the PRDE. After performing the subrecipient monitoring test, PKF auditors noted the following:

In one (1) of the ten monitoring files evaluated (10%), the subrecipient did not handed in to the PRDE the Corrective Action Plan.

PRDE Response: PRDE disagrees with this finding. PRDE performed corresponding monitoring activity on this subrecipient to ensure compliance with applicable federal requirements and subrecipient submitted Corrective Action Plan as requested by the Program. Corrective Action Plan is available upon request.

PKF Rebuttal: Although we considered PRDE's comments, we maintain that, at the date of our tests, the corrective action plan was not handed to the PRDE. We recommend the PRDE to obtain and provide the missing corrective action plan to the 2010 external auditor.

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Finding No:	2009-17
Topic:	Monitoring
Federal Program:	Twenty First Century Community Learning Centers
CFDA #:	84.287
Questioned Costs:	None

Condition: Our review of a sample of 23 subrecipients disclosed that for seven (7) of such subrecipients the PRDE could not provide evidence that they have received timely corrective actions on deficiencies identified in monitoring activities.

PRDE Response: PRDE disagrees with this finding. In six (6) out of the seven (7) subrecipients mentioned in the finding, the written notifications received from the Program are considered of low level of importance. Low level of importance findings are considered recommendations given by the Monitoring Unit to the subrecipients in order to improve the services those provide to the Program's participants. For the remaining one (1) subrecipient, monitoring finding was considered relevant by PRDE, therefore a Corrective Action was indeed necessary. Personnel from this specific subrecipient project and personnel from the Program itself discussed the monitoring finding over the phone and they agreed that the monitoring finding did not proceed. At that time, the subrecipient was able to provide evidence to the Program's personnel to resolve the matter. The Program's personnel at PRDE understood no further sanctions were to be applied. Nevertheless, the personnel in charge of the project later submitted a report stating the status of the matter previously discussed.

For all seven (7) subrecipients PRDE received the Corrective Action Plans, even though those were received after the internally proposed period of twenty (20) days, as established in the Program's monitoring guides. The reason why PRDE does not agree with this finding is because PRDE did perform follow up procedures in requesting the Corrective Action Plans from the subrecipients, which is also a step included within the Program's monitoring guide. PRDE also understands that the auditors should have been more inquisitive in the matters mentioned in the finding, therefore being able to understand the circumstances that caused the situations mentioned by them in the finding.

PRDE recognizes the importance of the monitoring process to ensure that the funds granted are properly used by the subrecipients, considering as well the importance of receiving timely corrective action plans.

PKF Rebuttal: Although we considered PRDE's comments, we maintain that, at the date of our tests, the corrective action plans requested by the PRDE were not handed to the agency by the subrecipient.

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The result of our examination was as follows:

Entity	Monitoring Date	Type of Monitoring		Result of Monitoring	Comments
		Fiscal	Programmatic		
1	2/19/09	X	X	CAP Required	
2	2/13/09	X	X	CAP Required	CAP requested on 2/11/10
3	2/18/09	X	X	CAP Required	
4	2/25/09	X	X	CAP Required	
5	3/24/09	X	X	CAP Required	CAP requested on 2/11/10
6	4/08/09	X	X	CAP Required	
7	4/14/09	X	X	CAP Required	
8	4/15/09	X	X	CAP Required	CAP requested on 4/17/09 but not received as of the date of our examination
9	4/21/09	X	X	CAP Required	
10	4/30/09	X	X	CAP Required	
11	5/06/09	X	X	CAP Required	CAP requested on 9/09/09
12	5/12/09	X	X	CAP Required	
13	5/12/09	X	X	CAP Required	
14	5/13/09	X	X	CAP Required	CAP requested on 2/11/10
15	5/19/09	X	X	CAP Required	
16	5/25/09	X	X	CAP Required	CAP requested on 3/27/10
17	5/27/09	X	X	CAP Required	
18	5/27/09	X	X	CAP Required	
19	5/31/09	X	X	CAP Required	
20	6/11/09	X	X	CAP Required	CAP requested on 9/16/09
21	6/23/09	X	X	CAP Required	
22	6/24/09	X	X	CAP Required	
23	7/02/09		X	CAP Required	

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Finding No:	2009-18
Topic:	Monitoring
Federal Program:	Adult Education – Basic State Grants
CFDA #:	84.002
Questioned Costs:	None

Condition: PKF auditors reviewed ten (10) subrecipients files for fiscal year 2008-2009 and noted that for four (4) of such subrecipients, PRDE could not provide evidence that it had performed oversight and monitoring procedures.

PRDE Response: PRDE recognizes the importance of the monitoring process to ensure that the funds granted are properly used by subrecipients. Therefore, the Program's Coordinator has reinforced monitoring procedures in order to ensure fulfillment of applicable federal compliance requirements, and to make certain that performance goals are being achieved. Adult Education Program has prepared a monitoring schedule for the subrecipients mentioned in the above condition and monitoring activities will be realized for fiscal years 2008-09 and 2009-10.

PKF Rebuttal: None.

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Finding No:	2009-19
Topic:	Monitoring
Federal Program:	Adult Education – Basic State Grants
CFDA #:	84.002
Questioned Costs:	None

Condition: PKF auditors reviewed ten (10) subrecipients files for fiscal year 2008-2009 and disclosed that for two (2) of such subrecipients, the audit files did not contain written management decisions.

PRDE Response: PRDE recognizes the importance of the monitoring process to ensure that the funds granted are properly used by subrecipients. Therefore, the Program's Coordinator will reinforce monitoring procedures in order to ensure fulfillment of applicable federal compliance requirements, and to make certain that performance goals are being achieved. PRDE has delivered the management decision on monitoring findings to the subrecipient. PRDE required the subrecipient to take immediate corrective actions on identified deficiencies and will be following up such matters. PRDE reflected the effects of subrecipient noncompliance in its records.

PKF Rebuttal: None.

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Finding No:	2009-20
Topic:	Monitoring
Federal Program:	Adult Education – Basic State Grants
CFDA #:	84.002
Questioned Costs:	None

Condition: PKF auditors reviewed ten (10) subrecipient files for fiscal year 2008-2009 and noted that for two (2) subrecipients; the subrecipient files did not contain adequate documentation of the follow up on the implementation of corrective actions. Although the subrecipient files contained some information relating to corrective actions, we found very little documentation or field office evaluations of and conclusions on the adequacy of the corrective actions taken by recipients.

PRDE Response: PRDE recognizes the importance of the monitoring process to ensure that the funds granted are properly used by subrecipients. Therefore, the Program's Coordinator will reinforce monitoring procedures in order to ensure fulfillment of applicable federal compliance requirements, and to make certain that performance goals are being achieved.

PKF Rebuttal: None.

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Finding No:	2009-21
Topic:	Monitoring
Federal Program:	Improving Teacher Quality State Grants
CFDA #:	84.367
Questioned Costs:	None

Condition: PKF auditors reviewed four (4) subrecipient files and noted that for one (1) subrecipient, PRDE could not provide evidence that it has received timely corrective actions on deficiencies identified in monitoring activity.

PRDE response: PRDE agrees with this finding. PRDE recognizes the importance of the monitoring process to ensure that the funds granted are properly used by subrecipients. PRDE will require the subrecipient to take immediate corrective actions on identified deficiencies and will be following up on such matters.

PKF Rebuttal: None.

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Finding No:	2009-22
Topic:	Return on Title IV Funds
Federal Program:	Student Financial Assistance Programs
CFDA #:	84.007, 84.033, 84.063 and 84.375
Questioned Cost:	\$517.25

Condition: In testing compliance with the return of Title IV funds requirement, the auditor selected seven (7) participants of the Title IV Federal Financial Assistance programs (Pell Grant (PELL), Federal Supplemental Educational Opportunity Grant (SEOG) and Academic Competitiveness Grant (ACG) who withdrew, dropped-out, or failed to attend to the institution. During the evaluation of compliance with these requirements, PKF auditors noted the following exception:

- In one (1) case, the PRDE used incorrect clock hours in the calculation worksheet for withdrew purpose.

PRDE Response: PRDE agrees with this finding. Nevertheless, it is important to mention that the seven students selected by the auditor represent the entire population of students that withdrew, drop-out or fail to attend to the institution selected for testing. Therefore, the exception above represented an isolated case, caused by a human error. PRDE is aware of the importance of complying with the proper return of Title IV funds and will be taking the necessary actions in order to avoid this type of error in the future.

PKF Rebuttal: We considered PRDE's response. However, we determined that the response did not warrant a change to our finding and recommendation.

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Finding No:	2009-23
Topic:	Recordkeeping
Federal Program:	Student Financial Assistance Programs
CFDA #:	84.007, 84.033, 84.063 and 84.375
Questioned Costs:	Not Determinable

Condition: In testing the accounting records of the PRDE, PKF auditors noted that in two of the campuses (San Juan Tools and Dye School on Bayamon), the PRDE did not have a recordkeeping system that allows an easy audit trail of all transactions involving the processing of financial aid.

PRDE Response: PRDE is working with the implementation of the application called Campus Information System (CIS) in order to manage the data related to student financial assistance. The implementation of this application in the campuses will contribute to the improvement in the productivity of the administrative personnel, accelerate processing time required, improve security and custody of the student files, reduce substantially the amount of paperwork and in turn save space; simplify access to and searching of the files for approved personnel in an electronic format, and generally improve overall administration and control of the procedures, confidentially and security regarding the privacy of the documents in the files of the students.

The customized application has already being created. Currently, PRDE is in the process of providing training to the personnel working with this program in order to begin the use of the application. PRDE estimates that the application could be fully implemented for the academic year 2010-2011.

PKF Rebuttal: None.

DEPARTMENT OF EDUCATION OF THE
COMMONWEALTH OF PUERTO RICO
APPENDIX II

PKF REBUTTALS TO PRDE
RESPONSE TO SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2009

Finding No:	2009-24
Topic:	Special Test- Disbursement Federal Pell Grant Program
Federal Program:	Student Financial Assistance Programs
CFDA #:	84.007, 84.033, 84.063 and 84.375
Questioned Costs:	Not Determinable

Condition: PRDE disbursed federal funds under the Federal Pell Grant Program (PELL) for \$10,619,448 in benefit of 2,904 participants. In testing compliance with the requirements related to disbursement to or on behalf of students, PKF auditors selected a random sample of forty-four (44) participants of the FPELL program who were awarded \$169,834 (1.59%).

PRDE could not provide for the PKF auditors examination evidence that the corresponding disbursement was realized no later than fourteen (14) days after the balance occurred if the credit balance occurred after the first day of class of a payment period; or two (2) no later than fourteen (14) days after the first day of class if the credit balance occurs on or before the first day of class of that payment period.

PRDE Response: PRDE disagrees with this finding. PRDE provided all the evidence requested by the external auditors at the time of the audit and always was available. Currently, the evidence is still available for review. PRDE recognized that during the fiscal year a new Assistance Secretary for Vocational and Technical Education was appointed and need to be register as such in order to approve the payroll and that delayed the approval process. Currently, the new Assistance Secretary for Vocational and Technical Education has been registered and received the appropriate training related to the approval process. PRDE will evaluate the internal process in order to prepare the disbursement in an efficient manner.

PKF Rebuttal: Although we considered PRDE's comments, we maintain that at the date of our test the evidence requested was not available. We recommend the PRDE to provide the missing evidence to the 2010 external auditor.

PUERTO RICO DEPARTMENT OF EDUCATION OF THE COMMONWEALTH OF PUERTO RICO
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2009

Finding Number	First appear in year	Finding (Condition Found)	CFDA Number	Questioned Cost	Status	Management Corrective Action Plan	Anticipated Completion Date	Responsible Officer	Contact Number
08-01		During the course of the audit, the auditors tested 16 changes to state funds for compliance with state laws and regulations.	Not applicable	None	Corrected	Information requested by the auditor is available for review upon request.	N/A	Ives Martin Carlo	787-773-2660
08-02	2006	The audits found delays in certain areas of the Memorandum of Agreement (MOA). They were unable to determine compliance with all requirements because some documentation was not readily available.	Various	Undetermined	Partially-Corrected	Information is currently available for review.	N/A	Riva Gonzalez	787-773-2003
08-03	1991	The auditors found certain issues relating to the accounting procedures and financial reporting practices of PRDE. Specifically, the auditor noted issues regarding cut-off procedures, filing procedures, budgeting controls, fiscal controls and personnel, payroll, and processing systems.	All Programs	None	Partially-Corrected	PRDE is working to strengthen its accounting records as stated in the Memorandum of Agreement. The financial system, SIFDE, has been fully implemented. Also, PRDE has developed the Project Costing Module which allocates the funds for each federal program according to its applicable set address requirements, among projects and then by activity.	December 31, 2010	Ives Martin Carlo	787-773-2660
08-04	1999	During the course of the audit, the auditors noted certain internal control issues related to Community Schools Administration (CSA).	Various	\$13,392	Partially-Corrected	PRDE has continue with the corresponding processes for the implementation of new strategies that would lead to correct those issues addressed by the auditors in their report. Currently, the transfers of funds from the Community School Administration (CSA) is limited to certain programs for vocational schools.	March 1, 2010	Ives Martin Carlo	787-773-2660
08-05	2008	During the performance of the audit tests, the auditors noted that the procedures followed by the PRDE's personnel and the systems in place do not allow for the prompt retrieval of payments and other documents requested. Additionally, they observed that various payment documents and other important data processed by the different federal programs accountants and the personnel at the Payments Division are mismatched and filed without any logical sequences.	Various	None		PRDE states that the delay in the retrieval of documents was because at the time of the audit, PRDE was in the processes of moving some of its divisions, including the Payment Division, to a new building. Therefore, the documents were not readily available. Also, there were problems with the samples selected by the auditors and the time available to find the documents was insufficient. Consequently, various documents were found after the time period specified by the auditors. PRDE will continue strengthening the filing system processes as part of its corrective actions.	N/A	Ives Martin Carlo	787-773-2660
08-06	2000	During the audit test to determine if PRDE followed appropriate standards related to personnel compensation, the auditors noted certain issues related to personnel files, payroll and the time distribution system.	Various	\$102,300	Partially-Corrected	PRDE has available some of the remaining missing documents reported by the auditors regarding the personnel files. In addition to the Time Distribution System, PRDE has been working closely with USDE as part of the Memorandum of Agreement (MOA). The 2007 Compliance Agreement Quarterly Progress Report provide further description of the PRDE's progress in this regard.	June 30, 2010	Felix Aviles and Erika Cameron	787-750-2000 Ext. 2342
08-07	2002	The auditor determine that accounts receivables arising from overpayments or merchandise returns to suppliers, improper salary payments, payments to employees without accumulated vacations or sick leave balances, and others were included in the expenditures reported in the Federal Financial Assistance programs. The accounts receivable are recorded in a subsidiary ledger when detected or identified. However, the expenditures in the related funds are reversed when amounts are actually collected. Accordingly, expenditures reported in the federal financial assistance programs are not allowable costs for those amounts uncollected at the end of each year.	Various	\$14,146	Corrected	PRDE disagrees with this finding. Apparently, the auditors misunderstood the process. The information related to the cases in which cost were questioned is available for review.	N/A	Ives Martin Carlo	787-773-2660
08-08	1998	The auditors noted issues pertaining to internal control over property and equipment obtained with federal funds.	Various	\$2,592,660	Partially-Corrected	PRDE revised its procurement and property management procedures in order to modernize the system as well as comply with state and federal requirements. SIFDE has a property management module that will be used to register all property from school to central level. PRDE undertook a major effort including the use of outside contractors in order of registering the inventory located at the school levels. Currently, PRDE has finalized the property inventory and all the equipment has been labeled. Also, some of the missing documents stated by auditors are available for review.	June 30, 2009	Nida Morales	787-773-2663
08-09	2001	During the course of the audit, the auditors noted issues pertaining to the economic data processing department regarding general controls, assistance programs application controls, physical controls and other matters.	All federal financial	None	Partially-Corrected	In response to the additional information requested, PRDE is providing the actual status of these specific items: IT Governance and Organization: PRDE has been working to develop a new organizational realignment for the IT Department. The new organizational realignment is being submitted to the PRDE Undersecretary of Administration for approval. The organizational structure is established with the appropriate IT Governance structure to ensure that all IT divisions and their resources are working cohesively towards one common goal. Information Security Policy: The new IT Director has been implementing new security measures and processes in the IT Department. The IT Policy Circular Letter 4-2008-2009 will be reviewed to include and reinforce the security policy and an specific Security Policy will be submitted for approval and dissemination. Internal Audit Function: PRDE recognizes the importance of the internal audit process as an important control over out information technology functions. Given the internal audit office's independence, OSIATD cannot direct the office's activities. However, PRDE is working to strengthen the capacity of the internal audit office through the 2007 Compliance Agreement and will recommend that the office takes these issues into account as it develops its workplan. Currently, an auditor from the Internal Audit Office has been identified and trained to assume the responsibility as an internal IT auditor. Transfer of Knowledge: PRDE is currently awaiting for the authorization from the Undersecretary of Administration to start the knowledge transfer procedures from the service contractors, Rock Solid Technologies, under the PRDE. At the time of the implementation of the Law #7 has impacted the IT Department as well as other PRDE offices. As consequence, the IT Department has lost part of the staff and currently the IT Department is working with the knowledge transfer from the employees that has been affected. Finally, the Secretary has issued a Letter that establish as a policy that every contract should include a clause forcing the knowledge transfer as part of the contract. Monitoring System: PRDE is working to establish and Enterprise Risk Monitoring Program to enable management on identifying internal and external risk that may prevent the organization from meeting its strategic objectives. PRDE is going to work with the effectiveness monitoring of the internal control and all its recommendations. Currently, this issue will be evaluated and address by the new IT Director and the correspondent personnel. Employee/Contractor Termination: The OSIATD offices has initiated new conversations with the Human Resources area in order to address this concern. The IT Department is working to implement a procedure to ensure that the Human Resources Department notifies OSIATD in a timely manner, whenever an employee or contractor is terminated. This will be performed with the creation of an interface between STAFF and the Ache Directory. The PRDE will research and seek quotes for possible single sign-on solutions. Currently, the implementation has begun and is expected to be fully implemented.	December 31, 2010	José Narvaez	787-750-2000 Ext. 3252

PUERTO RICO DEPARTMENT OF EDUCATION OF THE COMMONWEALTH OF PUERTO RICO
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2009

Findings Number	First appear in year	Findings (Condition Found)	CFDA Number	Questioned Cost	Status	Management Corrective Action Plan	Anticipated Completion Date	Responsible Officer	Contact Number
08-10	1994	Disbursement Test at SEA level.	Various	\$6,394,052	Partially-Corrected	<p>Encryption Method: The Student Information System is encrypted and it is stated as HTTPS. Most of the applications currently in use in the PRDE are internal applications, therefore no encryption is necessary. As for those web based applications in use the appropriate Security Communications are applied. This is the standard method used by the industry. Currently PRDE is working to establish encryptions of all communications channels through which they provide this data exchange between the PRDE employees and consumers. The appropriate Security Certifications are being applied for the remaining web base applications.</p> <p>Intrusion Detection: PRDE recently acquired a security device to manage PRDE Administrative Network and deploy new antivirus software. At this moment, IT Department is configuring the access rules to implement on all PRDE Administrative Network users. PRDE will continue use MS ISA servers only as a web proxy server. Also, The PRDE School Network has a security appliance. This was installed with redundancy network cluster and effectively block blended network threats.</p>		Ives Martin Carlo	787-773-2660
08-11	2002	Disbursement Test at LEA level.	Various	\$363,341	Partially-Corrected	<p>STAFFRICE Application: The OS/AT office maintains a copy of the technical/user manual of these applications in their library. A copy of the material is maintained at the OS/AT office off-site security location. The human resources data compile in STAFFRICE is managed by the human resources personnel and the OS/ATD office cannot interfere or ensure the quality of this data. The PRDE is going to request all the necessary information to have it in place and to send a copy to the International Safety Deposit.</p>		Ives Martin Carlo	787-773-2660
08-12	2008	In testing eleven claims for reimbursement for compliance with indirect cost requirements, the auditors noted that in two cases the supporting documentation of the total accumulated expenses claimed was not available for examination and that in one case no documentation was provided for examination. Also, they noted that in three claims the rate used was lesser than the approved rate.	84.002, 84.010, 84.287	\$437,263	Corrected	<p>Contingency Plan: PRDE is working to evaluate the actions in regards to Business Continuity Plan and Disaster Recovery Plan.</p> <p>Time and Cartridges Backups Control System: PRDE is currently using the Tivoli application to perform backups and control the integrity with the fiscal basic backup data organizing System. The Tivoli database is also backed up and kept in our off-site security location. The restoration test procedure was been develop before the transition process and will be continue.</p> <p>Management of IT Services: PRDE is going to establish appropriate policies and procedures to better manage IT support and to provide a standardized mechanism to service incidents and problems. The CA Uncenter Service Desk toolset has been updated to include a CA CMDB. A call center has been established and a new service procedures have been adopted. Other procedures will be develop in order to improve the service quality and effectiveness.</p> <p>Some of the information reported as missing has already been gathered, and is available for review at the Office of Federal Affairs.</p>	N/A	Ives Martin Carlo	787-773-2660
08-13	1998	The auditor determined that PRDE paid questionable employees' salaries using Title I and other federal program accounts.	84.010	Undetermined	Partially-Corrected	<p>Some of the information reported as missing has already been gathered, and is available for review at the Office of Federal Affairs.</p> <p>Information is currently available for review.</p>	June 30, 2010	Richard Vazquez	787-773-2085
08-14	2006	PRDE was unable to provide evidence of the clearing date of the checks, petition of funds or vouchers, and receipt voucher information related to the disbursement transactions selected. The information is contained in the disbursement requirements of Puerto Rico which did not provide access to this information during the auditor's test.	10.555, 10.558, 10.559, 84.010, 84.027, 84.367	Undetermined	Corrected	<p>PRDE still in the process of streamlining and modifying the time distribution process in order to ensure that employees paid with are working and performing duties directly related to the federal programs from which they are being paid. To that effect PRDE is currently reviewing the Time & Attendance System, using Kronos software, which will also account for time distribution. In addition to the TAL system, the Attendance System replaces the paper method that PRDE used in the past. It allows employees to electronically account for their time. PRDE will continue to verify the employees' work performed. The Time Distribution Office will start performing payroll calculations on a quarterly basis in order to validate the employees' effort as soon as the Time & Attendance System is fully implemented.</p>	N/A	Ives Martin Carlo	787-773-2660
08-15	1991	The auditor determined that PRDE does not have a formal cash management system at the schools level that effectively manages the timing between the receipt of federal funds and the ultimate disbursement of these funds.	84.010, 84.046, 84.298	\$2,246	Partially-Corrected	<p>At the time the auditors conducted their field work, the Governmental Development Bank has made changes to their access system, and PRDE personnel were not granted with the corresponding computer access in order to provide such information to the auditors for their review. Currently, PRDE has the information available for review.</p>	January 30, 2010	Ives Martin Carlo	787-773-2660
08-16	2004	Auditors tested compliance with the eligibility requirements for this program by randomly selecting 40 participants files from the management system at the schools level that effectively manages the timing between the receipt of federal funds and the ultimate disbursement of these funds.	84.002	\$2,135	Corrected	<p>PRDE has implemented a cash management system of Purchase debit card at the fiscal component level. This system is implemented in the school-level regions. The Purchase cards are used by the school director to make the purchases. This system allowed the auditors to verify the receipts to the community schools, therefore reducing the period of time between the receipts of federal funds and its ultimate disbursement.</p>	December 31, 2009	Angel Torres Peralta	787-773-3459
08-17	2002	In testing compliance with the verification requirement, the auditors selected forty (40) participants in the Student Financial Assistance (SFA) programs cluster (Federal Pell Grant, Federal Supplemental Educational Opportunity Grants, Federal Work Study and Academic Competitiveness Grant programs). During their examination, the auditors noted various instances of non-compliance.	84.007, 84.063, 84.375	\$3,289	Not completed	<p>PRDE disagrees with the finding because the auditors did not apply the appropriate statutory criteria regarding the documentation required to be in the participant's file to determine eligibility. Still, PRDE make the efforts to gathered some of the missing information states by the auditors and are now available for review.</p>	June 30, 2010	Helen Sosa	787-759-2000 Ext. 3322
08-18	2006	The auditors tested compliance with the eligibility requirements for this program by randomly selecting 40 participants files from the management system at the schools level that effectively manages the timing between the receipt of federal funds and the ultimate disbursement of these funds.	84.010	\$12,896	Corrected	<p>PRDE has requested to the Institute the information but as consequence of the Law #7, PRDE has confront some issues related to the information that was requested. The Department is still working with the completion of the information in order to respond to this finding in a reproducible manner.</p>	N/A	Luz D Villegas	787-773-2059
08-19	1996	In testing compliance with the requirements related to the eligibility for individuals of the program, the auditors noted certain instances of non-compliance.	84.027, 84.173	\$15,442	Partially-Corrected	<p>PRDE disagrees with this finding. Most of the criteria used by the auditors in their test to assess the individuals' eligibility are not required by the program law to determine a participant's eligibility. For a child to be eligible to receive services from Title I program, the school should be identified by the school as failing, or most at risk of failing, to meet the State's challenging academic standards. Moreover, the auditors did not verify that the students, regardless of their status, and students who participated in Head Start, Even Start or Early Reading First in the prior two years are also eligible to participate in Title I, Part A programs.</p>	December 31, 2010	Mercades Figueroa	787-759-2000 x 2290
08-20	2007	While reviewing the participants' files, the auditors noted that the PRDE did not maintain in each student's file the documents and information necessary to corroborate that the students participating in the Education for Homeless Children and Youth program complied with the eligibility requirements.	84.196	\$14,160	Corrected	<p>PRDE disagrees with this finding since the files of the students were available for examination at the time of the auditors' test. The files obtained by the auditors do not contain a census which included the residence of the students. The residence questionnaire completed in a guide by the auditors in the finding is used as a guide by the program and it is not required by the program's law as an eligibility requirement.</p>	N/A	Rogelio Campos	787-773-2080

PUERTO RICO DEPARTMENT OF EDUCATION OF THE COMMONWEALTH OF PUERTO RICO
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2009

Finding Number	First appear in year	Finding (Condition Found)	CFDA Number	Questioned Cost	Status	Management Corrective Action Plan	Anticipated Completion Date	Responsible Officer	Contact Number
08-21	2001	During the performance of the remarking test, the auditors found that the accounting system (SIFDE) maintains records which adequately track the source and application of funds provided for financially-assisted activities. These records are sufficiently expanded, and of the type and detail necessary to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. The SIFDE system, however, does not allow the tracing of all the IDEA funds and the safeguards to a level of expenditures adequate to establish that such funds have been used properly and in accordance with all federal requirements.	84-027, 84.173	Undetermined	Corrected	PRDE disagrees with the auditor's conclusions in this finding because it has the ability to track funds own to the level of expenditures with its new accounting system, SIFDE. The accounting system (SIFDE) maintains records which adequately track the source and application of funds provided for financially-assisted activities. These records are sufficiently expanded, and of the type and detail necessary to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. The SIFDE system, however, does not allow the tracing of all the IDEA funds and the safeguards to a level of expenditures adequate to establish that such funds have been used properly and in accordance with all federal requirements.	N/A	Mercedes Figueroa/ Ilea Marín Cario	787-753-7881
08-22	1999	The auditors found that the PRIDE accounting system does not limit the amount of expenditures charged to a grant award, because the system permits obligators and expenditures to be incurred and recorded in excess of the budgeted amounts accounted for in the system.	84.186	Undetermined	Corrected	PRDE disagrees with the auditors in relation to this finding regarding inappropriate budgeting control. PRIDE has implemented the Project Costing Module on its accounting system, which allocates the funds according to its applicable set of budget requirements, among projects and then by activity. Each activity is created once a need is identified by the Fiscal Program. At that moment, funds are actually distributed to those specific activities and the budget system does not allow issuing a payment in excess of the budgeted amount. An exception to the rule exists in special circumstances for the payment of payroll. But this is only in special circumstances because normally in the course of the year if the payment exceeds the budget amount, the Project Costing Module does not allow the issuance of a payment.	N/A	María del Carmen Martínez/ Ilea Marín Cario	787-753-2043
08-23	2007	For this program, the auditors tested whether PRIDE fulfilled the matching requirement for Even Start subrecipients. The auditors' tests revealed that for two (2) of the 10 subrecipients (20%), the award amount exceeded the amount allowable to be in compliance with the matching requirements.	84.213	\$82,600	Corrected	PRDE disagrees with the auditors' finding. The Even Start Program granted a waiver to these subrecipients as stated in the "Non Regulatory Guidance". The "Non Regulatory Guidance" is based on Section 1234(B)(2) of the Act and issued by the Federal Department Education. It states that SEA has the authority to grant a full or partial waiver of the matching funds to a participant subrecipient. The waiver documentation is available for review.	N/A	María Del Carmen Martínez	787-773-2043
08-24	2008	During the performance of the tests related to remarking requirements for the Improving Teacher Quality State Grant program, the auditors found that the accounting system does not provide controls to limit the amount of expenditures for administration because it allows the obligators and expenditures to be incurred and recorded in excess of the budgeted amounts accounted for in the system.	84.367	Undetermined	Corrected	PRDE disagrees with the auditors regarding their finding that PRIDE's financial management system has inappropriate budgeting control. PRIDE has implemented the Project Costing Module within its accounting system, which allocates the funds according to its applicable set of budget requirements, among projects and then by activity. Each activity is created once a need is identified by the program. Subsequently, funds are actually distributed to those specific activities and the budget system does not allow issuing a payment in excess of the budgeted amount. An exception to the rule exists in special circumstances for the payment of payroll. However, this practice only occurs in special circumstances, namely, during the course of the year, if the payment exceeds the budget amount, the Project Costing Module does not allow the issuance of a payment.	N/A	Miguel Gaudí/ Ilea Marín Cario	787-773-2077
08-25	2002	PRDE was able to submit the finance data to the US Government's National Center for Education Statistics (NCES) on time. Auditors requested and received the supporting documentation to ascertain about the completeness and accuracy of the financial information submitted in the report. However, they were unable to validate the information with the supporting documentation provided by PRDE. Furthermore, such report was not reconciled with the accounting records of PRIDE (PRIFAS or SIFDE).	84.010	None	Not completed	At this moment, the person that was in charge of this program, Mr. Rafael Cruz was transferred to another position as a school director. PRDE is making efforts to try to locate the supporting evidence in order to respond to this finding.	December 31, 2010	Luz D Villegas	787-773-2069
08-26	1999	To test the accuracy of the child count included in the Report of Children and Youth with Disabilities Receiving Special Education Under Part B of the Individuals With Disabilities Education Act, the auditors attempted to trace the data included in the regional Child Count Report to the special report but the auditors noted the following: in one (1) school, the child count was not available; in fifteen (15) schools, the amount reported in the district did not agree with the amount included in the PRDE's Information System; in one (1) school, the child count certification was submitted after the due date.	84.027, 84.173	Undetermined	Partially-Corrected	PRDE notes the difference between the auditors' count and the PRDE Child Count is approximately 1% and did not constitute an over-reporting of participants by PRDE. Nonetheless, PRDE will develop and establish procedures to avoid these instances of non-compliance. Therefore, PRDE requests that this finding be resolved.	N/A	Mercedes Figueroa	787-773-7881
08-27	2005	After performing the subrecipient monitoring test, the auditors noted that in one (1) of the five monitoring files evaluated, the PRDE failed to take action in response of the monitoring finding and in three (3) of the remaining files, PRDE did not record a Single Auditor for correct compliance report. The documentation was not available for examination.	84.002	Undetermined	Corrected	The Program is reinforcing its monitoring procedures in order to ensure fulfillment of applicable federal compliance requirements, and to ensure that performance goals are being achieved. PRDE has delivered the management decision on audit and monitoring findings to the subrecipient. The audited financial statements reported as missing by the auditors for the three subrecipients were subsequently received and are available for review.	N/A	Angel Torres Peñalosa	787-773-3458
08-28	2006	To test compliance with the subrecipient monitoring requirements, the auditors selected 10 of the subrecipients and noted that in four (4) monitoring reports, the PRDE did not receive single audit and/or compliance report and in one (1) monitoring file, the PRDE did not prepared a monitoring report.	84.186	Undetermined	Corrected	PRDE disagrees with the finding. The three cases mentioned are first year subrecipients and at the time of the test the 2006 Single Auditor reports were not ready. However, PRDE is continuously following up on this matter to ensure compliance. The audit for subrecipients reported as missing by the auditors for the three subrecipients were subsequently received and are available for review.	N/A	María Del Carmen Martínez	787-773-2043
08-29	2006	To test compliance with the subrecipient monitoring requirements, the auditors selected 10 of the subrecipients and noted that in four (4) monitoring reports, the PRDE failed to obtain audited financial statement or the single audit report and in four (4) monitoring files, the PRDE failed to obtain timely corrective actions on deficiencies identified in monitoring activities.	84.287	Undetermined	Corrected	As recommended in the Audit, PRDE's 21st COLC Program coordinator will reinforce monitoring procedures to ensure fulfillment of applicable federal requirements and to make certain non-compliance by subrecipients is identified by PRDE. PRDE will take action in response to monitoring findings and issue timely management decisions on such findings, including subrecipients to take immediate corrective actions once deficiencies are identified. The information stated as missing by auditors is available for review.	N/A	Sonia Arriola	787-773-2003
08-30	2006	To test compliance with the subrecipient monitoring requirements, the auditors requested a list of monitoring activities performed but no monitoring activities were performed under this program.	84.318	Undetermined	Corrected	During the audit, there were administrative changes in the Program and no monitoring visits were made. However, the Education Technology State Grants program offices offered technical assistance to subrecipients and reviewed the progress reports submitted by subrecipients. The Program Coordinator has developed a comprehensive monitoring schedule and visited the subrecipients. The information and evidence of the comprehensive monitoring schedule and monitoring activities performed are available for review.	December 1, 2009	Elsa Paz	787-773-2008
08-31	2008	To test compliance with the subrecipient monitoring requirements, the auditors selected 9 subrecipients and noted that in two (2) monitoring files, the PRDE failed to obtain audited financial statement of the single audit report.	84.367	Undetermined	Corrected	PRDE disagrees with this finding. The two subrecipients in question are for-profit organizations. Therefore, the Single Audit requirement under OMB Circular A-133 did not apply to either of them. Evidence of Certification of Incorporation and the audited financial statement are available for review.	N/A	Miguel Gaudí	787-773-2077

PUERTO RICO DEPARTMENT OF EDUCATION OF THE COMMONWEALTH OF PUERTO RICO
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2008

Finding Number	First appear in year	Finding (Condition Found)	CFDA Number	Questioned Cost	Status	Management Corrective Action Plan	Anticipated Completion Date	Responsible Officer	Contact Number
08-32	2001	During the course of the audit, the auditors tested 20 schools for compliance with schoolwide program requirements. The auditors identified deficiencies regarding the school eligibility and the comprehensive plan.	84,010, 84,186, 84,256, 84,316, 84,357	Undetermined	Corrected	PRDE disagrees with the finding. For eight of nine findings, the auditors found non-compliance based upon the fact that elements of the schoolwide programs were not approved by the evaluator of the program. There is no requirement under the Elementary and Secondary Education Act (ESEA), Sec. 1114, which contains the requirements for compliant schoolwide programs, that the schoolwide program be approved by the evaluator of the program. One of the instances mentioned by the auditors. All of the tasks mentioned were performed and are in accordance with the Federal requirements.	December 1, 2009	Luz D Villegas	787-775-2659
08-33	2007	The auditors tested the compliance with the Highly Qualified Teachers and Paraprofessional requirements of Title I Grants to Local Educational Agencies program. In two (2) of the ten files tested, there was no evidence that indicate whether the paraprofessional completed at least two years of study in an institution of higher education or obtained an associated degree or higher, or met a rigorous standard of quality.	84,010	\$43,688	Partially-Corrected	To ensure that PRDE continues to comply with all of the highly-qualified requirements for its paraprofessionals, its Regional Monitoring Units will continue to verify PRDE's compliance with the requirements of the Title I Grants to Local Educational Agencies program. PRDE will monitor for HQ paraprofessional non-compliance for 2009 as part of its year-round monitoring. To the extent that OFA's monitoring units find instances of non-compliance, it will inform the applicable units of their findings. OFA's monitoring units follow up with staff at the central, regional and school levels to ensure that any HQ paraprofessionals' non-compliance is addressed in a timely manner.	June 30, 2010	Luz D Villegas	787-775-2659
08-34	2008	The auditors requested for review the data received from schools to ascertain that such data was included and correctly reflected in the PRDE submission to USDE and the information disseminated to the public. This data is handled by an external party, but the auditors were unable to trace the data about the LEAs to source records to determine its accuracy, reliability and completeness.	84,010	Undetermined	Partially-Corrected	PRDE will be following the auditors' recommendation with regards requesting annual audit reports in accordance with Statement on Auditing Standards (SAS) No. 70) from the service organizations contracted to administer the tests and handle the data. Such compliance requirement will be included in the contracts with these service organizations to ensure that these service providers have adequate internal controls	June 30, 2010	Luz D Villegas	787-775-2659
08-35	2003	In testing compliance with the verification requirement, the auditors selected forty (40) participants in the Student Financial Assistance (SFA) programs cluster. During the examination, the auditors noted that on thirteen (13) of the forty (40) cases selected for the eligibility test, no adjustments were made to the Institutional Student Informative Record (ISIR) in relation to various exceptions.	84,007, 84,033, 84,063, 84,375	Undetermined	Not Corrected	PRDE has requested to the Institute the information but as consequence of the Law #7, PRDE has confront some issues related to the information that was terminated. Currently, the Department is still working with the completion of the information in order to respond to this finding in a reasonable manner.	June 30, 2010	Helen Sosa	787-759-2000 Ext. 3322
08-36	2002	During the evaluation of the work study disbursements requirements to or benefit students, the auditors found some conditions of non-compliance.	84,033	\$1,491	Not Corrected	PRDE has requested to the Institute the information but as consequence of the Law #7, PRDE has confront some issues related to the information that was terminated. Currently, the Department is still working with the completion of the information in order to respond to this finding in a reasonable manner.	June 30, 2010	Helen Sosa	787-759-2000 Ext. 3322
08-37	2002	During the evaluation of these awards to students, the auditors noted that in eighty-five (85) disbursements made to students, from a total of 89 payments, the PRDE paid the resulting students' credit balances in more than fourteen (14) days after crediting the students' accounts.	84,063	Undetermined	Not Corrected	PRDE has requested to the Institute the information but as consequence of the Law #7, PRDE has confront some issues related to the personnel that was terminated. Currently, the Department is still working with the completion of the information in order to respond to this finding in a reasonable manner.	June 30, 2010	Helen Sosa	787-759-2000 Ext. 3322
08-38	2005	In testing compliance with the return of Title IV funds requirement, the auditors selected twenty-five (25) participants of the Title IV Federal Financial Assistance programs (PELL, Pell and Federal Supplemental Educational Opportunity Grant (SEOG) and Academic Competitiveness Grant (ACG) who withdrew, dropped-out, or failed to attend to the institution. During the auditor's evaluation of compliance with these requirements, the auditors noted some instances of non-compliance.	84,007, 84,063, 84,375	\$13,708	Not Corrected	PRDE has requested to the Institute the information but as consequence of the Law #7, PRDE has confront some issues related to the personnel that was terminated. Currently, the Department is still working with the completion of the information in order to respond to this finding in a reasonable manner.	June 30, 2010	Helen Sosa	787-759-2000 Ext. 3322
08-39	2006	In testing the accounting records of the PRDE, the auditors found that in three of the campuses, the PRDE does not have a recordkeeping system that allows an easy audit trail of all transactions involving the processing of financial aid.	84,007, 84,033, 84,063, 84,375	Undetermined	Partially-Corrected	The PRDE is still implementing a new computer program called Campus Information System (CIS), which will simplify the processing and management of all documentation of students relating to Pell Grant. PRDE already has conducting strategies to the institutions related to the CIS. Currently, the proposal for implementation is pending to approval.	August 1, 2010	Helen Sosa	787-759-2000 Ext. 3322
08-40	2006	The auditors evaluated the criteria and methodology used by PRDE in maintaining accurate and complete records with respect to the receipt, distribution, and inventory of donated foods, including products processed from donated foods. During their evaluation of the compliance with accountability for commodities certain issues were noted in two warehouses.	10,550, 10,555, 10,559	Undetermined	Corrected	PRDE disagrees with the finding. Many of the discrepancies mentioned by the auditors in their report were due to their lack of inspection and investigation when performing the physical inventory. PRDE has the supporting evidence available for review.	N/A	Aida Fratchell	787-773-6282
08-41	2006	The auditors stated that after reviewing the report titled Education Visit to the School Lunch Program and Breakfast Program for each of the SFAs selected for testing, they noted the following conditions: 1) In our 25, there were difference between the report mentioned above and the Summary of Eligibility Verification submitted by each SFA; 2) In 10 out of 25, the PRDE failed to obtain from SFA the Summary of Eligibility Verification; 3) In 15 out of 25, the PRDE failed to obtain from SFA the Summary of Eligibility Verification; 4) In 14 out of 25, the PRDE did not issue a monitoring finding; 5) In our 14 PRDE issued a monitoring finding but no corrective action plan was received from the SFAs.	10,550, 10,555, 10,559	\$14,146	Corrected	PRDE has took corrective action and met with the monitoring officer to clarify the exceptions noted by the auditors, it has revise the internal control policy, and obtain the corrective action plan state as missing by the external auditors.	N/A	Aida Fratchell	787-773-6282