

Financial Statements

PUERTO RICO DEPARTMENT OF EDUCATION
(An Executive Agency of the Commonwealth of Puerto Rico)
SINGLE AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 2010

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Aquino, De Córdova, Alfaro & Co., LLP

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Independent Auditors' Report

Honorable Dr. Jesús M. Rivera Sánchez
Secretary
Department of Education of the
Commonwealth of Puerto Rico
San Juan, Puerto Rico

We have audited the accompanying Statement of Cash Receipts and Disbursements (the Statement) of the Department of the Education of the Commonwealth of Puerto Rico (the "PRDE"), for the year ended June 30, 2010. The Statement is responsibility of the PRDE's management. Our responsibility is to express an opinion on the Statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statement's presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 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, 2010 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 in the United States of America.

In our opinion, the Statement referred to above present fairly, in all material respects, in conformity with the basis of accounting described in Note 2, the statement of cash receipts and disbursements of each fund of the Department of the Education of the Commonwealth of Puerto Rico for the year ended June 30, 2010.

In accordance with *Government Auditing Standards* we have also issued our report dated March 11, 2011, on our consideration of the PRDE's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

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

The management's discussion and analysis on pages 3 through 7 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, 2010, and have issued our report thereon dated March 11, 2011. Our audit was performed for the purpose of forming an opinion on the Statement taken as a whole. The accompanying Schedule for Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the Statement. Such information has been subjected to the auditing procedures applied in the audit of the Statement and, in our opinion, is fairly stated, in all material respects, in relation to the Statement taken as a whole.

March 11, 2011

Aquino, De Córdoba, Alfaro & Co. LLP

Stamp number 2787882
has been affixed to the
original report



Aquino, De Córdoba, Alfaro & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Puerto Rico Department of Education
(An Executive Agency of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2010

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, 2010. This report includes the cash received and cash paid as a result of the operating activities of the PRDE including both funds appropriated by the Commonwealth of Puerto Rico (the Commonwealth) and federal financial assistance programs granted by the US Governmental Agencies (USGA).

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

Financial Analysis

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

Cash Receipts and Disbursements – condensed financial information:

	Year Ended June 30		Change	
	2010	2009	In dollars	Percentage
Cash Receipts:				
Commonwealth appropriations	\$ 2,276,322,488	\$ 2,547,444,831	\$ (271,122,344)	(10.64)%
Intergovernmental – federal government	1,420,199,950	903,197,869	517,002,081	57.24%
Total cash receipts	3,696,522,438	3,450,642,700	245,879,738	
Cash Disbursements:				
Current:				
General government	5,779,638	5,902,507	(122,869)	(2.08)%
Vocational and Technical Education	99,469,921	110,653,903	(11,183,982)	(10.11)%
Community Schools	2,337,324,641	2,398,425,982	(61,101,341)	(2.55)%
Integrated Educative Services for the Disabled	359,483,453	412,079,533	(52,596,080)	(12.76)%
Food Services for Students	334,157,991	356,609,710	(22,451,719)	(6.30)%
Schools' Quality of Life and Drug Free	35,077,160	37,420,965	(2,343,805)	(6.26)%
Integrated Services to Communities	236,879	222,350	14,529	6.53%
Adult Education	19,252,836	21,297,286	(2,044,450)	(9.60)%
Open Schools	525,696	719,799	(194,103)	(26.97)%
Technological Institutes	18,736,721	17,232,318	1,504,403	8.73%
Auxiliary Services and Technical Assistance	52,239,367	115,162,907	(62,923,540)	(54.64)%
Institute for Administrative Training and Counseling to Schools	334,522	292,173	42,349	14.49%
Public Schools Maintenance	51,846,591	35,376,048	16,470,543	46.56%
Printing Services	1,240,627	1,479,580	(238,953)	(16.15)%
Indirect Costs	23,809,504	10,481,801	13,327,703	127.15%
Joint Resolutions	100,225,540	33,488,159	66,737,381	199.29%
Special Accounts	166,818,435	34,110,796	132,707,639	389.05%
Total cash disbursements	3,606,559,522	3,590,955,817	15,603,705	0.43%
Excess (deficiency) for the year	\$ 89,962,916	\$ (140,313,117)	\$ 230,276,033	(164.12)%



Puerto Rico Department of Education
(An Executive Agency of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2010

Financial Analysis (continued)

Cash receipts from the federal government increased approximately \$517 million or 57.24% compared with the prior year. This increase is mainly attributable to the receipt of \$445 million from the American Recovery and Reinvestment Act of 2009, abbreviated ARRA (Pub.L. 111-5) and commonly referred to as the Stimulus or The Recovery Act. This Act is an economic stimulus package enacted by the United States Congress in February 2009. Its overall goals are to stimulate the economy in the short-term and invest wisely, using these funds to improve schools, raise achievement and drive reforms.

A detail of the programs that received funds from ARRA is shown below:

Name of Agency or Department	CFDA No.	Name of Program	Total Received
USDE	84.394	State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	\$ 201,035,939
USDE	84.389	Title I Grants to Local Educational Agencies, Recovery Act	218,995,656
USDE	84.386	Education Technology State Grants, Recovery Act	6,354,111
USDE	84.391	Special Education Grants to States, Recovery Act	17,315,983
USDA	10.579	Child Nutrition Discretionary Grants Limited Availability	1,532,182
USDE	84.387	Education for Homeless Children and Youth, Recovery Act	64,946
			<u>\$ 445,298,817</u>

Cash disbursements presented under Auxiliary Services and Technical Assistance Program decreased approximately \$62.9 million or 54.64% compared with the prior year. The reason for this decrease is that the Administrative Consolidated Fund was presented under this classification during 2009, but for 2010, PRDE's management decided to present the expenses from this Fund along with the expenses of the different federal programs that contributed to it. Expenses from this Fund amounted to \$56.9 million in 2009. In 2010, the expenses from this Fund were \$44.6 million and were distributed as follows within the Statement of Cash Receipts and Disbursements:

CFDA No.	Name of Federal Program	Classification within the Statement of Cash Receipts and Disbursements	Expenses
84.010	Title I Grants to Local Educational Agencies	Community Schools	\$40,223,688
84.367	Improving Teacher Quality State Grants	Community Schools	3,586,107
84.287	Twenty-First Century Community Learning Centers	Community Schools	276,533
84.318	Education Technology State Grants	Community Schools	206,693
84.389	Title I Grants to Local Educational Agencies, Recovery Act	Community Schools	118,630
84.298	State Grants for Innovative Education Program	Community Schools	15,416
84.186	Safe and Drug-Free Schools and Community- State	School's Quality of Life and Drug Free	143,659
84.386	Education Technology State Grants , Recovery Act	School's Quality of Life and Drug Free	4,825
84.213	Even Start- State Educational Agencies	Adult Education	30,141
84.013	Title I Program for Neglected & Delinquent Children	Vocational and Technical Education	4,668
	Total Expense for the Administrative Consolidated Fund		<u>\$44,610,360</u>



Financial Analysis (continued)

The cash disbursements for Public School Maintenance increased approximately \$16.5 million or 46.56% compared with the prior year. During 2010, expenditures related to purchased services increased approximately \$11.2 million. These additional expenditures were related to maintenance of septic tanks, fumigation and landscaping. Another reason for the increase was the strengthening of the existing roofs at the schools, installation of new windows and doors as well as restrooms remodeling through building improvement which increased approximately \$9.7 million when compared with the prior year.

The cash disbursements under the Indirect Costs classification increased approximately \$13.3 million or 127.15% compared with the prior year. During 2010, approximately \$6.2 million from these funds were used for the purchase of educational materials; \$4 million were used approximately in professional services related to the development of new applications for the PRDE finance system, as well as consulting services on the use of these new applications. Other professional services paid and received during 2010 consisted of evaluations of therapies in the Special Education Program. Another reason for the increase in cash disbursements under the Indirect Costs classification was the purchase of software licenses related to the School Information System developed at the PRDE Planning Office, as well as software licenses acquired for the administration and monitoring of the computer accesses for a cost of approximately \$3.6 million.

Cash disbursements under the Joint Resolutions classification increased approximately \$66.7 million or 199.29% compared with the prior year. The main reason for this increase was the payment of \$35.5 million in economic incentives to teachers and other PRDE's employees associated with Law No. 7 of March 9, 2009, "*Ley Especial Declarando Estado de Emergencia Fiscal y Estableciendo Plan Integral de Estabilización Fiscal para Salvar el Crédito de Puerto Rico*". The increase is also attributable to the receipt of two fund allocations from the PR Office of Management and Budget of \$18 million and \$6.6 million for the payment of services received from the PR Power Authority and PR Water and Sewer Authority, respectively.

Cash disbursements under the Special Accounts increased approximately \$132.7 million or 389.05% compared with the prior year. This increase was due to the inclusion of a total of approximately \$148.5 million in expenditures from the PRDE School Food Authority. Also, during 2009 PRDE received several allocations of funds from the Central Government that were not received during 2010. These allocations included \$2.7 million for the development of projects related to the information technology systems, \$5 million in obligations made in 2008 and paid in 2009 for transportation services received by the Special Education Program and \$5 million for the purchase of educational materials.

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 disbursements for these funds:



Financial Analysis (continued)

Governmental Funds Results

General Fund

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

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

	General Fund		Change	
	2010	2009	In dollars	Percentage
Cash Receipts:				
Commonwealth appropriations	\$ 2,276,322,488	\$ 2,547,444,831	\$ (271,122,343)	-11%
Cash Disbursements:				
Total cash disbursements	2,277,790,332	2,554,744,641	(276,954,309)	-11%
Excess (deficiency)	<u>\$ (1,467,844)</u>	<u>\$ (7,299,810)</u>		

In general, cash receipts from the Commonwealth appropriation decreased by \$271.1 million which is mainly the result of a decrease in budget as assigned by the PR Office of Management and Budget. Cash disbursements decreased accordingly.

Title I Fund

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

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

	Title I		Change	
	2010	2009	In dollars	Percentage
Cash Receipts:				
Intergovernmental – federal government	\$ 699,689,746	\$ 195,786,255	\$ 503,903,491	257.37%
Cash Disbursements:				
Total cash disbursements	640,720,845	243,338,147	\$ 397,382,698	163.30%
Excess (deficiency)	<u>\$ 58,968,901</u>	<u>\$ (47,551,892)</u>		

The cash receipts presented under the Title I Fund column increased approximately \$503.9 million or 257.4% compared to the prior year.

The main reason for this increase was that during 2010, PRDE decided to present the monies it transfers from the Title I Fund to the Schoolwide Consolidated Fund and the Administrative Consolidated Fund under the column of the Title I Fund (a transfer of \$254 million in 2010). During 2009, those funds were presented under the Other Governmental Funds column in the Statement of Cash Receipts and Disbursements (a transfer of \$214 million in 2009).



Financial Analysis (continued)

Another reason for the increase in the amount presented as cash receipts under the Title I Fund column is that during 2010 the PRDE received approximately \$219 million as part of an additional grant for the Title I Program under the ARRA.

The same explanation is applicable for the cash disbursements which increased approximately \$397.3 million or 163.3% compared to the prior year. During 2010, the portion of Title I Program Funds disbursed through the Schoolwide Consolidated Fund and through the Administrative Consolidated Fund was approximately \$220.7 million. An additional \$223.3 million was disbursed from the grant received under ARRA.

Contacting Financial Management

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





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Puerto Rico Department of Education
(An Executive Agency of the Commonwealth of Puerto Rico)
Statement of Cash Receipts and Disbursements
Fiscal Year Ended June 30, 2010

	General Fund	Title I	Other Governmental Funds	Total Governmental Funds
Cash Receipts:				
Commonwealth appropriations	\$ 2,276,322,488	-	-	\$ 2,276,322,488
Intergovernmental – federal government	-	699,689,746	720,510,204	1,420,199,950
Total cash receipts	2,276,322,488	699,689,746	720,510,204	3,696,522,438
Cash Disbursements:				
Current:				
General Government	5,779,638	-	-	5,779,638
Vocational and Technical Education	81,188,182	-	18,281,739	99,469,921
Community Schools	1,364,233,613	640,720,845	332,370,183	2,337,324,641
Integrated Educative Services for the Disabled	244,192,756	-	115,290,697	359,483,453
Food Services for Students	143,558,309	-	190,599,682	334,157,991
Schools' Quality of Life and Drug Free	30,338,994	-	4,738,166	35,077,160
Integrated Services to Communities	236,879	-	-	236,879
Adult Education	5,757,483	-	13,495,353	19,252,836
Open Schools	525,696	-	-	525,696
Technological Institutes	6,651,131	-	12,085,590	18,736,721
Auxiliary Services and Technical Assistance	51,092,290	-	1,147,077	52,239,367
Institute for Administrative Training and Counseling to Schools	334,522	-	-	334,522
Public Schools Maintenance	51,806,733	-	39,858	51,846,591
Printing Services	1,240,627	-	-	1,240,627
Indirect Costs	23,809,504	-	-	23,809,504
Joint Resolutions	100,225,540	-	-	100,225,540
Special Accounts	166,818,435	-	-	166,818,435
Total cash disbursements	2,277,790,332	640,720,845	688,048,345	3,606,559,522
Excess (deficiency)	\$ (1,467,844)	\$ 58,968,901	\$ 32,461,859	\$ 89,962,916

(1) Reporting Entity

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

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

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

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

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

(a) Basis of accounting

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

(b) Fund accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of the PRDE that are reported in the accompanying statement of cash receipts and disbursements have been classified into governmental funds.



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

(b) Fund accounting (continued)

Major individual governmental funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column. The following are classified as major governmental funds:

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

(c) Budgetary Accounting

The PRDE's budget is integrated within the general budget of the Commonwealth. The budget is adopted in accordance with statutory basis of accounting, which is comprehensive basis of accounting other than generally accepted accounting principles. Cash receipts are generally recognized when cash is received from federal financial assistance programs or other grants that are received from sources other than the Commonwealth. The PRDE is granted the right to draw against available funds of the Secretary of the Treasury as its means to incur 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 up to the year following the end of the fiscal year when the encumbrances were recognized, 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 until 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 do not have a legally mandated budget.



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

(d) Compensated Absences

The PRDE's employees are classified as either educational or non-educational. The educational employees receive vested rights for two months paid vacation at the end of each year of full-time employment and accrue sick leave at two days per month worked. The allowed maximum amount of days of accumulated sick leave is 90 days. In case of resignation or early retirement, sick leave is vested for payment if the employee has served for ten or more consecutive years. The non-educational employees accrue regular vacation and sick leave at 2.5 days and 1.5 days per calendar month, respectively. The allowed maximum number of accumulated days of regular vacation and sick leave is 60 days and 90 days, respectively.

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

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

(e) Risk Management

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

(3) Stewardship, Compliance and Accountability

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



(4) Indirect Cost Allocation Plan

Generally, every year the Department submits a proposal for an indirect cost allocation plan for approval by the USDE, the Audit Cognizant Agency. On November 19, 2009, the USDE entered into an Indirect Cost Rate Agreement (No. 2009-145A) with the PRDE which replaced the previous agreement No. 2009-145. This agreement became effective on January 1, 2008 and was applicable until March 31, 2010. The rates approved by the USDE under this agreement were of 11.7% for school lunch programs and 3.0% for all other programs based on salaries and wages, including fringe benefits. The latest agreement between the PRDE and USDE on this regard, (Agreement No. 2010-218), which replaced the previously mentioned Agreement No. 2009-145A, was entered into on August 26, 2010, and was retroactively applicable from July 1, 2009 until September 30, 2010. The rates approved by the USDE under this agreement were of 10.7% for school lunch programs and 3.1% for all other programs, based on salaries and wages, including fringe benefits. These rates are used to allocate qualified types of expenditures from state funds to the federal financial assistance programs.

(5) Retirement Plan

a. Teachers Retirement System (TRS)

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

The plan provides retirement, death, and disability benefits. Benefits vest after completion of a given number of years of credited service based on age. Benefits are determined by the application of stipulated benefit ratios to the members' average compensation. Average compensation is computed based on the highest three years of compensation recognized by TRS. The annuity for which a plan member is eligible is limited to a minimum of \$300 per month and a maximum of 75% of the average compensation.

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

b. Employees' Retirement System (ERS)

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



Puerto Rico Department of Education

(An Executive Agency of the Commonwealth of Puerto Rico)

Notes to the Statement of Cash Receipts and Disbursements

June 30, 2010

(5) Retirement Plan (continued)

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

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

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

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

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

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

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

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



Puerto Rico Department of Education

(An Executive Agency of the Commonwealth of Puerto Rico)

Notes to the Statement of Cash Receipts and Disbursements

June 30, 2010

(5) Retirement Plan (continued)

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

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.

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

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

The PRDE's contractually required contributions for the years ended June 30, 2010, 2009 and 2008 amounted to \$154,774,967, \$166,574,518 and \$155,684,636, respectively.

Additional information on the ERS is provided in its financial statements for the years ended June 30, 2010 and 2009, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities, P.O. Box 42003, San Juan, PR 00940-2003.



(6) Commitments

a. Federal Financial Assistance Programs

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

b. Operational Leases

The Department is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore neither the assets nor the liabilities of the lease agreements are reflected in the accounting records. Most leased property is from the Puerto Rico Public Buildings Authority, a component unit of the Commonwealth of Puerto Rico. Rent paid during the fiscal year ended June 30, 2010, under these lease agreements amounted to approximately \$134 million. Information of the future minimum rental payments required under operating leases was not available.

c. Compliance Agreement

On October 25, 2004, the PRDE entered into a Compliance Agreement with the USDE. This agreement, lasting three years, was 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. This compliance agreement addressed the following issue areas: Grants Management in general, Grants Management for several specific program areas, Payroll, and Procurement and Property Management. At the execution of the agreement the USDE removed the PRDE's high risk designation and entered into a probationary status.

On December 17, 2007, Commonwealth and the USDE entered into a Memorandum of Agreement (MOA) that governs the implementation, review, and oversight of certain activities that are being conducted, and will continue to be conducted, by the Commonwealth and the PRDE in compliance with, and in follow up to, certain terms and conditions of the Compliance Agreement between the Commonwealth, PRDE, and the USDE that expired on April 30, 2009 (Puerto Rico, PRDE, and the Department shall hereafter collectively be referred to as "the Parties").



(6) Commitments (continued)

c. Compliance Agreement (continued)

On December 17, 2007, Puerto Rico and the USDE also entered into a programmatic Compliance Agreement. The purpose of this Agreement is to improve education for the students of Puerto Rico by bringing the Commonwealth and PRDE into full compliance with program requirements of the USDE. The USDE awards grants to the PRDE under a number of Federal education programs. As a result of program monitoring and audits, the USDE has identified several program areas requiring corrective action by the PRDE. The programs under which PRDE receives funds from the USDE and in which corrective action is necessary, include Titles I, II, and IV of the Elementary and Secondary Education Act (ESEA), Title IV of the Higher Education Act of 1965, and the Individuals with Disabilities Education Act (IDEA) (hereafter referred to as "covered Federal programs").

However, events in Puerto Rico, including a serious economic downturn, and a proposed reorganization of the PRDE because of the application of Law 7, led the PRDE to take immediate actions to provide additional fiscal, administrative and program support to address the PRDE concerns as documented in an August 21, 2009 letter. Subsequent to the August 2009 letter and the September 2009 site visit, PRDE entered into a Memorandum of Understanding (MOU) with several fiscal and oversight Puerto Rico agencies, including the Puerto Rico Department of Treasury, the Government Development Bank and the Puerto Rico Office of Management and Budget.

The MOU also provides for an Oversight Committee to monitor and oversee the implementation of the Department's agreements with PRDE.

During a May 2010 site visit, the Commonwealth and the PRDE reported additional and significant progress in addressing the USDE outstanding concerns with regard to MOA action steps. In addition, the PRDE reported that its proposed reorganization will be fully implemented by July 1, 2010. PRDE explained how its new structure will support its continued operation in accordance with the implemented action steps in the areas of program implementation, monitoring and technical assistance, and schoolwide programs under the Office of Federal Affairs (OFA) Grants Management section of the MOA, resulting in increased and improved support to schools. Therefore, at this time, the USDE determined that Puerto Rico and the PRDE have substantially satisfied requirements in the 2004 Agreement and have substantially completed the action steps under the MOA in the areas of grant management, payroll, and procurement.

d. Special Conditions

On a communication dated June 12, 2009, the USDE approved the issuance of grant awards to the PRDE for the fiscal year 2009-10, subject to certain special conditions.



(6) Commitments (continued)

d. Special Conditions (continued)

The USDE stated that Commonwealth and PRDE have substantially satisfied the requirements in the 2004 Agreement and have substantially completed the action steps under the MOA in the areas of grants management, payroll and procurement. However, USDE understands additional work remains to be done to fully and effectively implement all actions steps outlined in the 2007 Agreement, including the corrective action plan (2007 CAP's) developed in conjunction with, and incorporated into, the 2007 Agreement. Therefore, USDE imposed upon all grants awarded to PRDE for the fiscal year 2009, the following special conditions: a) adequate progress in implementing action plans and related reporting requirements; b) Internal Audit Office and Audit Oversight Committee status report; c) prompt response to request of records by the USDE or its representatives; d) program-specific conditions; and e) ARRA-specific conditions.

e. Prior Audit Resolutions

Total questioned costs included in the single audit reports for fiscal years ended June 30, 2009, 2008, 2007 and 2006 amounted to \$3,201,441, \$10,079,777, \$12,708,307 and \$7,411,135, respectively. The resolution of such questioned amounts is currently being closely worked with USDE. For all of these single audits, a final determination on such findings has not been received from the USDE. For the 2005 single audit report, a partial determination was received in September 2007, which resulted in a liability of \$2,004,510.

f. Current Single Audit Results

The Report on Compliance and Internal Control over Compliance Applicable to Each Major Federal Award Program issued in connection with the single audit for the year ended June 30, 2010, disclosed several instances of noncompliance with applicable laws and regulations that were considered significant deficiencies. Some of these significant deficiencies were also considered material weaknesses. Additionally, the schedule of findings and questioned costs in the single audit report includes federal funds questioned in the amount of \$1,357,250.

g. Other Audits

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



(6) Commitments (continued)

g. Other Audits (continued)

Under certain circumstances, as provided by Act No. 9 dated November 26, 1975, as amended, the Commonwealth of Puerto Rico may provide its officers and employees of the Puerto Rico agencies and instrumentalities with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgments. The oversight entities, such as the Puerto Rico Department of Justice, the Puerto Rico Department of the Treasury, and the federal government, are evaluating actions to be taken against the PRDE and/or its employees. The financial impact and enforcement actions, if any, that might be taken by the oversight entities cannot presently be determined.

h. Other Litigation Matters

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





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

Honorable Dr. Jesús M. Rivera Sánchez
Secretary
Department of Education of the
Commonwealth of Puerto Rico
San Juan, Puerto Rico

We have audited the accompanying Statement of Cash Receipts and Disbursements (the "Statement") of the Department of Education of the Commonwealth of Puerto Rico (the "PRDE") for the fiscal year ended June 30, 2010 and have issued our report thereon dated March 11, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report on the Statement discloses that, as described in Note 2 to the Statement, the PRDE prepares its Statement on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

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

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

Honorable Dr. Jesús M. Rivera Sánchez
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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as findings 2010-01 and 2010-02 that we consider to be significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the PRDE's Statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provision 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 matter 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 2010-01 and 2010-02.

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

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

March 11, 2011

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has been affixed to the
original report



Aquino, De Córdoba, Alfaro & Co., LLP

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

Honorable Dr. Jesús M. Rivera Sánchez
Secretary
Department of Education of the
Commonwealth of Puerto Rico
San Juan, Puerto Rico

Compliance

We have audited the Puerto Rico Department of Education (the "PRDE") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the PRDE's major federal programs for the fiscal year ended June 30, 2010. The PRDE's major federal programs are identified in the summary of the auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs in 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 general accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PRDE's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the PRDE's compliance with those requirements.

Honorable Dr. Jesús M. Rivera Sánchez
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 Department of Education of the
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 San Juan, Puerto Rico
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As described in findings in the accompanying schedule of findings and questioned costs, the PRDE did not comply with requirements that are applicable to the following programs:

2010-02	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Availability, Procurement, Suspension and Debarment	84.010	Title I Grant to Local Educational Agencies
		84.027	Special Education- Grants to States
		84.048	Career and Technical Education- Basic Grant to States
		84.287	Twenty-First Century Community Learning
		84.367	Improving Teachers Quality
		84.389	Title I Grant to Local Educational Agencies, Recovery Act
2010-03	Activities Allowed or Unallowed, Allowable Costs/Cost Principles	84.394	State Fiscal Stabilization Fund, Recovery Act
		84.010	Title I Grant to Local Educational Agencies
		84.027	Special Education- Grants to States
		84.048	Career and Technical Education- Basic Grant to States
		84.213	Even Start-State Educational Agencies
		84.287	Twenty-First Century Community Learning
2010-04	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Procurement, Suspension and Debarment	84.318	Education Technology State Grants
		84.366	Mathematic and Sciences
		84.367	Improving Teachers Quality
		84.386	Education Technology State Grants, Recovery Act
		84.389	Title I Grant to Local Educational Agencies, Recovery Act
		84.394	State Fiscal Stabilization Fund, Recovery Act
2010-05	Cash Management	84.186	Safe and Drug-Free Schools and Communities State Grants
2010-05	Cash Management	10.558	Child and Adult Care Food Program
		84.010	Title I Grants to Local Educational Agencies
		84.367	Improving Teacher Quality State Grants
2010-06	Eligibility	84.027	Special Education- Grants to States
2010-07	Eligibility for individuals	84.007	Federal Supplemental Educational Opportunity Grant
		84.033	Federal Work- Study Program
		84.063	Federal Pell Grant Program
2010-08	Reporting	84.048	Career and Technical Education- Basic Grant to States
2010-09	Sub-recipient Monitoring	10.558	Child and Adult Care Food Program
2010-10	Sub-recipient Monitoring	84.287	Twenty-First Century Community Learning
2010-11	Special Tests and Provisions- Accounting for Commodities	10.550	Food Donation
2010-12	Special Tests and Provisions- Verification	84.007	Federal Supplemental Educational Opportunity Grant
		84.033	Federal Work- Study Program
		84.063	Federal Pell Grant Program
2010-13	Special Tests and Provisions- Eligibility for Schoolwide Program	84.010	Title I Grant to Local Educational Agencies
		84.186	Safe and Drug-Free Schools and Communities State Grants
		84.287	Twenty-First Century Community Learning
		84.318	Education Technology State Grants
		84.367	Improving Teachers Quality
		84.386	Education Technology State Grants, Recovery Act
2010-14	Special Tests and Provisions- Disbursement to or on behalf of students	84.389	Title I Grant to Local Educational Agencies, Recovery Act
		84.394	State Fiscal Stabilization Fund, Recovery Act
		84.007	Federal Supplemental Educational Opportunity Grant
		84.033	Federal Work- Study Program
		84.063	Federal Pell Grant Program
		2010-15	Special Tests and Provisions- Return of Title IV Funds
84.033	Federal Work- Study Program		
84.063	Federal Pell Grant Program		

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



Aquino, De Córdoba, Alfaro & Co., LLP

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Honorable Dr. Jesús M. Rivera Sánchez
Secretary
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San Juan, Puerto Rico
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In our opinion, except for the noncompliance described above, the PRDE complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal control over compliance

Management of the PRDE is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the PRDE's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the PRDE's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency



Honorable Dr. Jesús M. Rivera Sánchez
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in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 2010-02 to 2010-15 to be a significant deficiency.

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

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

Aquino, De Cordova, Alfaro & Co. LLP

March 11, 2011

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original report



Puerto Rico Department of Education
(An Executive Agency of the Commonwealth of Puerto Rico)
 Section 1 - Summary of Auditors' Results
 Fiscal Year Ended June 30, 2010

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture:			
Food Donation – Commodities (Non-Cash Assistance)	10.550		\$ 10,478,311
Child Nutrition Cluster			
National School Lunch Program	10.555		145,445,188
Summer Food Service Program for Children	10.559		14,457,269
Child and Adult Care Food Program	10.558		26,731,000
State Administrative Expenses for Child Nutrition	10.560		2,309,976
Fresh and Fruit Vegetables Program	10.582		124,552
Child Nutrition Discretionary Grants Limited Availability-ARRA	10.579		<u>1,531,697</u>
Total U.S. Department of Agriculture			201,077,993
National Endowment of the Humanities:			
State Library Program	45.310		2,635,671
U.S. Department of Education			
Adult Education - State Grant Program	84.002		8,123,595
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grants	84.007		92,595
Federal Work - Study Program	84.033		128,184
Federal Pell Grant Program	84.063		11,864,811
Title I Grants to Local Educational Agencies	84.010		399,142,116
Title I Grants to Local Educational Agencies, Recovery Act	84.389		241,578,730
Title I Program for Neglected and Delinquent Children	84.013		807,987
Special Education Cluster:			
Special Education - Grants to State	84.027		93,546,724
Special Education - Grants to State, Recovery Act	84.391		17,757,595
Special Education - Preschool Grants	84.173		3,056,791
Special Education - Preschool Grants, Recovery Act	84.392		852,799
Impact Aid	84.041		1,147,077
Vocational Education - Basic Grants to States	84.048		15,046,076
Byrd Honors Scholarships	84.185		494,688
Safe and Drug-Free Schools and Communities - State Grants	84.186		4,738,166
Education for Homeless Children and Youth	84.196		1,902,541
Education for Homeless Children and Youth, Recovery Act	84.387		731,998
Even Start - State Educational Agencies	84.213		2,736,087
Tech-Prep Education	84.243		1,734,421
Twenty - First Century Community Learning Centers	84.287		31,260,567
State Grants for Innovative Programs	84.298		470,855

(continued)



Puerto Rico Department of Education
(An Executive Agency of the Commonwealth of Puerto Rico)
 Section 1 - Summary of Auditors' Results
 Fiscal Year Ended June 30, 2010

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Education Technology State Grants	84.318		4,929,630
Education Technology State Grants, Recovery Act	84.386		7,053,947
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326		76,788
Grants to States for Incarcerated Youth Offenders	84.331		198,567
Mathematics and Science Partnership	84.366		8,103,404
Improving Teacher Quality State Grants	84.367		51,569,490
Grants for State Assessments and Related Activities	84.369		3,393,199
School Improvement Grants	84.377		2,809,721
National Assessment of Educational Progress (NAEP) Secondary Analysis	84.902		<u>108,909</u>
Sub-total Direct Programs			915,458,058
Pass-Through Program From Office of Governor of the Commonwealth of Puerto Rico: State Fiscal Stabilization Fund-			
Education State Grants, Recovery Act	84.394	660-43-3481	<u>219,742,583</u>
Total U.S. Department of Education			1,135,200,641
 Department of Health and Human Services			
Pass-Through Program From Puerto Rico Department of Health:			
Abstinence Education	93.235	660-43-3481	81,910
Direct Program: Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938		<u>85,269</u>
Total U.S. Department of Health and Human Services			167,179
 Corporation for National and Community Service			
Learn and Serve America - School and Community Serve Program	94.004		126,159
 U.S. Department of Homeland Security			
Public Assistance Grants	97.036		<u>39,858</u>
Total Expenditures of Federal Awards			<u>\$ 1,339,247,501</u>

The accompanying notes are an integral part of the Schedule.



Aquino, De Córdova, Alfaro & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

1. Basis of Presentation

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

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

2. Clusters

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

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

3. Transferability

For purposes of the Schedule for the year ended June 30, 2010, the expenditures related to the funds transferred from the Improving Teacher Quality State Grants program (CFDA #84.367 to the State Grants for Innovative Programs (CFDA #84.298) in the amount of \$9,395,476, were included in the total expenditures of the Teacher Quality State Grants program.



4. Schoolwide program funds

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

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

CFDA No.	Name of Federal Program	Expenses in the Schoolwide Fund
84.010	Title I Grants to Local Educational Agencies	\$ 180,411,458
84.389	Title I Grants to Local Educational Agencies, Recovery Act	223,314,727
84.367	Improving Teacher Quality State Grant	10,898,207
84.318	Educational Technology State Grants	2,837,939
84.386	Educational Technology State Grants, Recovery Act	6,867,819
84.186	Safe and Drug-Free Schools and Communities-State Grant	1,100,846
84.298	State Grants for Innovative Programs	21,514
84.394	State Fiscal Stabilization Fund (SFSF)	112,548,992
NA	State Fund	1,048,417,165
Total Expenditures in the Schoolwide Fund		\$ 1,586,418,668

5. Consolidated program funds

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

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

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



Puerto Rico Department of Education
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 Notes to the Schedule of Expenditures of Federal Awards
 June 30, 2010

5. Consolidated program funds (continued)

<u>CFDA No.</u>	<u>Name of Federal Program</u>	<u>Expenses in the Administrative Consolidated Fund</u>
84.010	Title I Grants to Local Educational Agencies	\$ 40,223,688
84.367	Improving Teacher Quality State Grants	3,586,107
84.287	Twenty-First Century Community Learning Centers	276,533
84.318	Education Technology State Grants	206,693
84.389	Title I Grants to Local Educational Agencies , Recovery Act	118,630
84.298	Innovative Education Program	15,416
84.186	Safe and Drug-Free Schools and Communities- State Grants	143,659
84.386	Education Technology, Recovery Act	4,825
84.213	Even Start- State Educational Agencies	30,141
84.013	Title I Program for Neglected & Delinquent Children	4,668
Total Expense for the Administrative Consolidated Fund		<u>\$ 44,610,360</u>



Financial Statements

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

Internal control over financial reporting:

Material weakness (es) identified? **No**
 Significant deficiencies (s) identified that are not considered to be material weaknesses? **Yes**
 Noncompliance material to financial statements noted? **No**

Federal Awards

Internal control over major programs:

Material weakness (es) identified? **No**
 Significant deficiencies identified that are not considered to be material weaknesses? **Yes**

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

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

Identification of major programs:

<u>CFDA</u>	<u>Program</u>
10.550	Food Donation
10.558	Child and Adult Care Food Program
	<i>Child Nutrition Cluster</i>
10.559	Summer Food Service Program for Children
10.555	National School Lunch Program
84.002	Adult Education – Basic Grants to States
	<i>Student Financial Assistance Cluster</i>
84.007	Federal Supplemental Educational Opportunity
84.063	Grants
84.033	Federal Pell Grant Program
	Federal Work-Study Program
	<i>Title I Part A Cluster</i>
84.010	Title I Grants to Local Educational Agencies
84.389	Title I Grants to Local Educational Agencies, Recovery Act



Identification of major programs: (continued)

	<i>Education Technology State Grants Cluster</i>
84.318	Education Technology State Grants
84.386	Education Technology State Grants, Recovery Act
	<i>Special Education cluster (IDEA)</i>
84.027	Special Education Grants to States
84.173	Special Education Preschool Grants
84.391	Special Education Grants to States Recovery Act
84.392	Special Education Preschool Grants, Recovery Act
84.048	Career and Technical Education Basic Grants to States
84.186	Safe and Drug-Free Schools and Communities State Grants
84.287	Twenty-First Century Community Learning Centers
84.366	Mathematics and Science Partnerships
84.367	Improving Teacher Quality State Grants
84.394	State Fiscal Stabilization Fund (SFSF)- Education State Grant, Recovery Act

Dollar threshold used to distinguish between type A and type B program: **\$4,017,742**

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



Finding Number: 2010-01

Federal Agency: U.S. Department of Education

Category: Compliance/ Internal Controls

Criteria

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

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

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

Condition

During the year ended June 30, 2010, the PRDE charged expenditures to General Fund program amounting to \$2,277,790,332. To test compliance with the state laws and regulations, we selected a sample of ninety-eight (98) disbursements charges to state funds amounted to \$235,857,765 representing 10.3% of the total population. In testing compliance and internal controls over allowability and procurement requirements for state funds, we noted the following exceptions:

- a. In twenty (20) of the cases examined (20% of total sample tested), no procurement documents were provided for examination. Total unsupported costs amounted to \$2,161,899.
- b. In six (6) of the cases examined (6% of total sample tested), no quote, bids, proposal or contract were provided for examination. Total unsupported costs amounted to \$3,668.
- c. In seven (7) of the cases examined (7% of total sample tested), no disbursement supporting documents were provided for examination. Total unsupported costs amounted to \$34,050.
- d. In one (1) of the cases examined (1% of total sample tested), no supporting invoice was provided for examination. Total unsupported costs amounted to \$3,862.



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 allow 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.



Puerto Rico Department of Education

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Section 3 - Federal Award Findings

Fiscal Year Ended June 30, 2010

Finding Number: 2010-02

Federal Program: CFDA 84.010, Title I Grant to Local Educational Agencies
CFDA 84.027, Special Education- Grants to States
CFDA 84.048, Career and Technical Education- Basic Grant to States
CFDA 84.287, Twenty-First Century Community Learning
CFDA 84.318, Education Technology State Grants
CFDA 84.367, Improving Teachers Quality
CFDA 84.386, Education Technology State Grants, Recovery Act
CFDA 84.389, Title I Grant to Local Educational Agencies, Recovery Act
CFDA 84.394, State Fiscal Stabilization Fund, Recovery Act

Federal Agency: U.S. Department of Education

Category: Compliance/ Internal Controls

Compliance Requirement: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Availability, Procurement, Suspension and Debarment

Criteria

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

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

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

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

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



Puerto Rico Department of Education
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 Section 3 - Federal Award Findings
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Condition

In testing compliance and internal control over allowability, period of availability and procurement and suspension and debarment requirement, we selected 1,115 disbursements from the programs distributed as follows:

<u>Program</u>	<u>CFDA No.</u>	<u>Items tested</u>	<u>Sample dollar amount</u>
State Fiscal Stabilization Fund, Recovery Act	84.394	25	\$ 6,212,684
Title I, Part A Cluster	84.010, 84.389	32	25,122,695
Student Financial Assistance Cluster	84.007, 84.375, 84.063, 84.033		
Education Technology State Grant Cluster	84.318, 84,386	15	816,728
Child Nutrition Cluster	10.559, 10.555 84.027, 84.173,	44	166,557,581
Special Education Cluster	84.391	120	8,559,916
Mathematics and Science Partnerships	84.366	98	4,821,148
Twenty-First Century Community Learning Centers	84.287	94	5,915,736
Child and Adult Care Food Program	10.558	98	3,940,643
Career and Technical Education- Basic Grant to States	84.048	98	88,991
Adult Education	84.002	98	1,153,417
Improving Teacher Quality States Grant	84.367	54	5,876,853
Safe and Drug Free Schools and Communities- State Grants	84.186	25	3,298,866
Schoolwide Plan and Consolidated Plan	N/A	314	4,683,865
Total		1,115	\$ 237,049,123

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

Attribute Condition

- A. No procurement supporting documents were available for examination.
- B. No disbursement supporting documents were available for examination.
- C. No quote, bids, or proposal was available for examination.
- D. Applicable retention was not retained.
- 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. Less than three quotes were available for examination.
- J. Cost or price analysis does not support the actions.
- K. No contract was available for examination.



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 Fiscal Year Ended June 30, 2010

Condition (continued)

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

CFDA 84.010 Title I Grant to Local Educational Agencies

Voucher Number	Voucher Date	Amount (\$)	A	B	C	D	E	F	G	H	I	J	K	Questioned Costs
144463	9/14/2009	1,022.25			X						X			-
156014	11/5/2009	264.50			X						X			-
160008	11/30/2009	28,502.06	X									X		-
169044	11/26/2009	171.18			X						X			-
172577	2/16/2010	7,455.16	X									X		-
175108	3/1/2010	4,793.47	X									X		-
198208	6/16/2010	12,982.82			X						X			-
199726	6/23/2010	4,341.77			X						X			-

CFDA 84.027 Special Education- Grants to States

Voucher Number	Voucher Date	Amount (\$)	A	B	C	D	E	F	G	H	I	J	K	Questioned Costs
200127	6/24/2010	101.50			X						X			-
10AP5809	7/24/2009	158.62	X									X		-
10AP6140	7/8/2009	187.42							X					\$ 187.42
140408	9/1/2009	505.00			X			X	X		X			505.00
164907	12/17/2009	688.00			X						X			-
183173	4/7/2010	794.20	X									X		-
180160	3/19/2010	2,166.00	X									X		-
10AP8538	8/17/2009	2,309.00		X										2,309.00
182782	4/13/2010	2,549.80	X									X		-
182700	4/13/2010	2,884.20	X									X		-
149558	10/2/2009	3,000.00			X						X			-
164549	12/15/2009	3,325.00	X			X		X				X		3,325.00
159320	11/23/2009	3,494.40						X						3,494.40
177061	3/9/2010	3,498.48	X									X		-
167439	1/14/2010	4,522.00	X									X		-
168523	1/21/2010	4,752.00	X									X		-
171454	2/8/2010	6,244.35	X									X		-
192370	5/26/2010	6,328.00			X						X			-
167554	1/14/2010	6,750.00	X					X				X		6,750.00
161059	12/3/2009	6,992.00	X					X				X		6,992.00
162264	12/8/2009	6,210.00	X									X		-
160208	11/30/2009	9,750.00	X									X		-
188093	5/10/2010	10,943.05	X									X		-



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 Section 3 - Federal Award Findings
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Condition (continued)

CFDA 84.027 Special Education- Grants to States (continued)

Voucher Number	Voucher Date	Amount (\$)	A	B	C	D	E	F	G	H	I	J	K	Questioned Costs
167471	1/14/2010	12,193.25	X									X		-
164527	12/16/2009	14,164.50	X									X		-
171825	2/17/2010	13,942.80	X									X		-
180215	3/29/2010	14,332.50	X									X		-
166898	1/12/2010	13,726.85	X									X		-
163944	12/16/2009	55,344.00	X									X		-
														<u>\$ 23,562.82</u>

CFDA 84.048 Career and Technical Education- Basic Grant to States

Voucher Number	Voucher Date	Amount (\$)	A	B	C	D	E	F	G	H	I	J	K	Questioned Costs
179781	3/16/2010	2,656.50	X									X		-
180467	3/30/2010	4,720.00	X					X				X		\$ 4,720.00
182347	4/12/2010	4,752.00	X					X				X		4,752.00
182343	4/12/2010	7,755.00	X					X				X		7,755.00
183446	3/23/2010	11,550.00	X									X		-
188311	5/11/2010	14,725.00	X					X				X		14,725.00
157981	11/13/2009	397.65			X						X			-
188271	5/11/2010	6,195.00	X					X				X		6,195.00
191851	5/25/2010	70.56	X									X	X	-
193089	6/1/2010	168.00			X			X			X			168.00
														<u>\$ 38,315.00</u>

CFDA 84.287 Twenty-First Century Community Learning Centers

Voucher Number	Voucher Date	Amount (\$)	A	B	C	D	E	F	G	H	I	J	K	Questioned Costs
141023	9/1/2009	900.00							X					\$ 900.00
142242	9/4/2009	825.00							X					825.00
148551	9/28/2009	4,620.00	X									X		-
152300	10/19/2009	7,728.00			X						X			-
162712	12/9/2009	1,575.00	X									X		-
164296	12/16/2009	1,967.10	X									X		-
172767	12/16/2010	993.04			X						X		X	-
194325	6/3/2010	1,748.00			X		X				X			1,748.00
196023	6/9/2010	4,090.00			X						X			-
196625	6/10/2010	352.00			X						X		X	-
197466	6/15/2010	1,264.00			X						X			-



Aquino, De Córdova, Alfaro & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Puerto Rico Department of Education
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Condition (continued)

CFDA 84.287 Twenty-First Century Community Learning Centers (continued)

Voucher Number	Voucher Date	Amount (\$)	A	B	C	D	E	F	G	H	I	J	K	Questioned Costs
10AP063G	8/11/2009	900.00	X									X		-
10AP3693	8/13/2009	22,050.00	X									X	X	-
10AP6117	7/8/2009	500.00	X									X		-
152300	10/19/2009	7,728.00			X						X			-
142709	9/8/2009	4,050.00	X									X		-
														<u>\$ 3,473.00</u>

CFDA 84.367, Improving Teachers Quality

Voucher Number	Voucher Date	Amount (\$)	A	B	C	D	E	F	G	H	I	J	K	Questioned Costs
10AP6045	8/7/2009	5,100.00	X		X							X		-
10AP4119	8/18/2009	4,293.75			X						X			-
165792	12/22/2009	1,150.00							X					\$ 1,150.00
169713	01/29/2010	505.00							X					505.00
176485	3/8/2010	1,000.00							X					1,000.00
														<u>2,655.00</u>

CFDA 84.391 Special Education Grants to States, Recovery Act

Voucher Number	Voucher Date	Amount (\$)	A	B	C	D	E	F	G	H	I	J	K	Questioned Costs
198497	6/17/2010	182,455.80	X									X		-
184373	3/29/2010	201,006.00	X									X		-
184522	3/17/2010	235,375.00	X									X		-

CFDA 84.389, Title I Grant to Local Educational Agencies, Recovery Act

Voucher Number	Voucher Date	Amount (\$)	A	B	C	D	E	F	G	H	I	J	K	Questioned Costs
189316	5/7/2010	4,062.78			X						X		X	-
192001	5/25/2010	50,084.00	X									X		-
192291	4/7/2010	2,508.00	X									X		-
192382	3/15/2010	15,234.20	X									X		-
192988	5/28/2010	19,169.10	X									X		-
193796	6/2/2010	9,347.75	X									X		-
193799	4/8/2010	8,778.00	X									X		-



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Condition (continued)

CFDA 84.394, State Fiscal Stabilization Fund, Recovery Act

Voucher Number	Voucher Date	Amount (\$)	A	B	C	D	E	F	G	H	I	J	K	Questioned Costs
194136	6/3/2010	12,467.50	X									X		-
194156	6/3/2010	15,850.00	X									X		-
194418	6/3/2010	206,799.00	X									X	X	-
194530	6/3/2010	79,220.00	X									X	X	-
194557	6/3/2010	202,818.75	X									X	X	-
194838	6/4/2010	36,372.50	X									X		-
195422	6/8/2010	2,100.00	X									X		-
195766	6/8/2010	40,179.30	X									X	X	-
196317	6/10/2010	22,154.90	X									X		-
196543	6/10/2010	30,240.07	X			X						X		-
196690	6/11/2010	7,980.00	X			X						X		-
196799	6/10/2010	1,092.50	X									X		-
197076	6/14/2010	9,962.36	X									X	X	-
198447	6/17/2010	10,590.00	X									X		-
200089	6/24/2010	13,114.00	X									X		-
200808	6/28/2010	680.00	X									X		-
202029	6/30/2010	24,699.48	X									X		-

Schoolwide Program¹

Voucher Number	Voucher Date	Amount (\$)	A	B	C	D	E	F	G	H	I	J	K	Unsupported Amount
113295	3/27/2009	637.00	X									X		-
10AP5463	7/6/2009	72.20			X							X	X	-
140183	8/31/2009	500.94			X							X	X	-
147571	9/23/2009	1,490.48	X									X	X	-
149780	10/5/2009	345.51			X							X	X	-
150327	10/6/2009	708.80	X					X				X		\$ 708.80
150266	10/6/2009	1,687.20	X					X				X		1,687.20
150446	10/7/2010	2,772.00	X									X		-
151666	10/13/2009	29,228.15	X									X		-
151613	10/13/2009	2,627.00	X									X		-
151795	10/13/2009	4,000.00	X									X		-
151753	10/15/2009	3,340.80	X									X		-
151787	10/14/2009	10,815.10	X									X		-

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



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Condition - Schoolwide Program (continued)

Voucher Number	Voucher Date	Amount (\$)	A	B	C	D	E	F	G	H	I	J	K	Unsupported Amount
151753	10/15/2009	3,340.80	X									X		-
152243	10/19/2009	869.15			X						X		X	
152493	10/20/2009	7,688.55	X									X		-
152589	9/14/2009	1,200.00	X					X				X		1,200.00
152524	9/27/2009	2,184.00	X									X		-
153130	10/22/2009	73.26											X	-
153311	10/23/2009	56.85											X	-
153964	10/27/2009	23,500.00	X									X		-
153923	10/27/2009	7,427.50	X									X		-
153954	10/27/2009	23,500.00	X									X		-
154264	10/27/2009	11,709.60	X									X		-
154204	10/27/2009	4,500.00	X									X		-
154462	10/28/2009	6,225.00	X					X				X		6,225.00
154878	10/29/2009	4,195.00	X									X		-
154876	10/29/2009	3,420.00	X									X		-
154879	10/29/2009	3,700.00	X									X		-
155661	11/3/2009	3,625.86	X					X				X		3,625.86
155651	11/3/2009	3,846.15	X		X		X				X	X		3,846.15
155754	11/4/2009	14,274.05	X					X				X		14,274.05
156225	11/5/2009	19,883.70	X									X		-
156314	11/5/2009	14,642.25	X									X		-
156374	11/5/2009	6,138.30	X									X		-
156967	11/4/2009	2,640.00	X									X		-
157603	11/12/2009	7,437.50	X									X		-
157600	11/12/2009	5,400.00	X									X		-
157578	11/12/2009	3,616.75	X					X				X		3,616.75
157940	11/13/2009	2,520.00	X									X		-
157915	11/13/2009	1,920.00	X									X		-
158447	11/17/2009	8,744.00	X					X				X		8,744.00
158720	11/7/2009	32,775.00	X									X		-
160254	12/1/2009	369.48	X									X	X	-
160352	12/1/2009	2,527.00	X									X		-
160380	12/1/2009	1,710.00	X									X		-
161415	12/4/2009	4,072.00	X					X				X		4,072.00
162194	12/3/2009	11,961.60	X									X		-
163968	12/16/2009	7,534.80	X					X				X		7,534.80
164325	12/16/2009	603.32	X									X	X	-
164808	12/17/2009	24,913.22	X	X				X	X			X	X	24,913.22



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Condition - Schoolwide Program (continued)

Voucher Number	Voucher Date	Amount (\$)	A	B	C	D	E	F	G	H	I	J	K	Unsupported Amount
164749	12/16/2009	16,093.00	X					X				X		16,093.00
164679	12/16/2009	8,264.88	X									X		-
164968	12/10/2009	736.00	X									X		-
164833	12/16/2009	1,260.00	X									X		-
165227	12/18/2009	10,458.00	X					X				X		10,458.00
165335	12/18/2009	7,266.00	X					X				X		7,266.00
165192	12/18/2009	4,845.75	X					X				X		4,845.75
165243	12/18/2009	4,795.20	X					X				X		4,795.20
165181	12/11/2009	3,972.75	X									X		-
165056	12/11/2009	1,344.00	X									X		-
165365	12/18/2009	2,999.75	X					X				X		2,999.75
165182	12/18/2009	3,483.90	X					X				X		3,483.90
165319	12/18/2009	5,882.37	X					X				X		5,882.37
165266	12/18/2009	3,222.00	X					X				X		3,222.00
165257	12/18/2009	2,308.80	X					X				X		2,308.80
165371	12/18/2009	1,092.00	X					X				X		1,092.00
165491	12/21/2009	10,251.20	X					X				X		10,251.20
165468	12/21/2009	2,925.00	X					X				X		2,925.00
165471	12/21/2009	5,304.00	X					X				X		5,304.00
165460	12/21/2009	3,458.00	X					X				X		3,458.00
165515	12/21/2009	14,104.00	X					X				X		14,104.00
165494	12/21/2009	3,958.40	X					X				X		3,958.40
165476	12/21/2009	1,056.00	X					X				X		1,056.00
165462	12/21/2009	1,536.00	X					X				X		1,536.00
165438	12/21/2009	2,348.00	X					X				X		2,348.00
165955	12/22/2009	7,884.72	X									X		-
166063	12/16/2009	3,171.60	X									X		-
166304	12/23/2009	6,132.72	X									X		-
167253	1/13/2010	665.57	X									X	X	-
167066	1/13/2010	4,764.00	X									X		-
167348	1/14/2010	12,759.20	X									X		-
168874	1/25/2009	13,147.68	X									X		-
168861	1/25/2010	3,465.00	X									X		-
168869	1/25/2010	5,922.00	X									X		-
169210	1/26/2010	1,734.00	X									X		-
170715	2/3/2010	4,608.72	X					X				X		4,608.72
170579	2/3/2010	2,098.92	X					X				X		2,098.92
158150	11/16/2009	11,406.00	X					X				X		11,406.00



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Condition - Schoolwide Program (continued)

Voucher Number	Voucher Date	Amount (\$)	A	B	C	D	E	F	G	H	I	J	K	Unsupported Amount
170662	2/3/2010	1,768.08	X					X				X		1,768.08
170940	2/4/2010	11,168.00	X					X				X		11,168.00
171025	2/4/2010	28,800.00	X			X		X				X		28,800.00
170856	2/4/2010	6,703.68	X					X				X		6,703.68
170852	2/4/2010	10,207.36	X					X				X		10,207.36
170765	2/4/2010	10,190.40	X					X				X		10,190.40
170823	2/4/2010	6,567.26	X									X		-
170946	2/4/2010	3,511.20	X					X				X		3,511.20
171047	2/4/2010	1,368.00	X			X		X				X		1,368.00
170793	2/4/2010	525.00	X					X				X		525.00
171170	2/5/2010	43,584.00	X			X		X				X		43,584.00
171154	2/5/2010	2,304.60	X					X				X		2,304.60
171297	2/5/2010	1,160.00	X			X		X				X		1,160.00
172202	2/8/2010	2,739.47	X									X		-
172615	2/17/2010	1,691.68	X					X				X		1,691.68
172722	2/16/2010	171.75	X									X	X	-
173283	2/19/2010	42,000.00	X			X						X		-
173264	2/19/2010	5,653.80	X									X		-
173233	2/19/2010	7,578.80	X					X				X		7,578.80
174572	2/25/2010	10,998.00	X					X				X		10,998.00
174561	2/25/2010	2,221.50	X					X				X		2,221.50
174981	2/26/2010	381.60	X									X	X	-
175304	3/1/2010	7,512.96	X									X		-
175259	3/1/2010	11,360.04	X									X		-
175350	3/2/2010	3,452.25	X									X		-
175685	3/3/2010	3,479.85	X			X						X		-
175827	3/4/2010	2,118.50	X									X		-
175814	3/4/2010	1,350.00	X									X		-
176240	3/5/2010	34,200.00	X			X		X				X		34,200.00
176120	3/5/2010	4,617.00	X					X				X		4,617.00
176339	3/5/2010	3,800.00	X			X		X				X		3,800.00
176360	3/5/2010	2,820.55	X					X				X		2,820.55
176317	3/5/2010	1,297.70	X					X				X		1,297.70
176344	3/5/2010	1,716.00	X			X		X				X		1,716.00
176113	3/5/2010	2,736.95	X					X				X		2,736.95
157937	11/13/2009	2,900.00	X					X				X	X	2,900.00
158049	11/16/2009	9,000.00	X					X				X		9,000.00
177392	3/10/2010	384.75	X					X				X	X	384.75



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Condition - Schoolwide Program (continued)

Voucher Number	Voucher Date	Amount (\$)	A	B	C	D	E	F	G	H	I	J	K	Unsupported Amount
176122	3/5/2010	3,731.60	X					X				X	X	3,731.60
176809	3/9/2010	735.84	X									X	X	-
177392	3/10/2010	384.75	X					X				X	X	384.75
178346	3/16/2010	116.72	X									X	X	-
178790	3/12/2010	2,464.00	X									X		2,464.00
178946	3/19/2010	637.15	X									X	X	-
179214	3/23/2010	42,000.00	X			X						X		-
179211	3/23/2010	18,000.00	X			X						X		-
179340	3/23/2010	1,710.00	X					X				X		1,710.00
179221	3/23/2010	9,562.50	X					X				X		9,562.50
180965	4/4/2010	1,562.00	X									X		-
181138	5/4/2010	7,489.90	X									X		-
181228	4/6/2010	12,249.60	X									X		-
181279	4/6/2010	7,586.91	X			X		X				X		7,586.91
181283	4/6/2010	1,848.00	X									X		-
181474	4/7/2010	1,848.00	X					X				X		1,848.00
181631	4/8/2010	4,576.00	X					X				X		4,576.00
181733	4/8/2010	2,707.10	X					X				X		2,707.10
181702	4/8/2010	3,900.00	X					X				X		3,900.00
181627	4/8/2010	1,287.00	X					X				X		1,287.00
183091	4/8/2010	13,714.86	X					X				X	X	13,714.86
184865	4/23/2010	25,808.08	X									X		-
185952	4/30/2010	23,343.40	X					X				X		23,343.40
185879	4/30/2010	612.00	X					X				X		612.00
186642	5/4/2010	1,539.00	X									X		-
186555	5/4/2010	2,340.80	X									X		-
186669	5/4/2010	7,677.90	X									X		-
186745	5/6/2010	2,000.00	X									X		-
187275	5/6/2010	15,075.55	X					X				X		15,075.55
187204	5/6/2010	4,199.00	X					X				X		4,199.00
188217	5/11/2010	166.90	X									X	X	-
190938	5/21/2010	114.01	X									X	X	-
195083	6/3/2010	11,059.30	X									X		-
194918	6/7/2010	9,078.00	X									X		-
194920	6/3/2010	2,864.00	X									X		-
195103	6/3/2010	1,134.00	X									X		-
195582	6/3/2010	3,972.75	X									X		-
199155	6/21/2010	4,497.24	X									X	X	-



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Condition - Schoolwide Program (continued)

Voucher Number	Voucher Date	Amount (\$)	A	B	C	D	E	F	G	H	I	J	K	Unsupported Amount
199602	6/22/2010	395.50			X							X		-
199728	6/23/2010	3,238.50	X					X				X		3,238.50
199965	6/24/2010	178,678.50												-
200408	6/25/2010	2,164.50	X					X				X		2,164.50
201682	6/30/2010	398.50	X									X	X	-
176287	3/5/2010	4,275.00	X					X				X		4,275.00
103836	2/9/2010	5,481.00	X					X				X		5,481.00
140042	8/25/2009	2.40	X									X	X	-
151361	10/13/2009	3,509.94	X					X				X		3,509.94
155659	11/3/2009	11,678.25	X									X		-
157737	11/13/2009	6,636.00	X					X				X		6,636.00
160368	12/1/2009	1,330.00	X					X				X		1,330.00
164101	12/14/2009	1,744.05	X									X	X	-
164771	12/16/2009	1,584.00	X					X				X		1,584.00
165251	12/18/2009	1,763.05	X					X				X		1,763.05
165505	12/21/2009	15,804.00	X					X				X		15,804.00
166321	12/22/2009	1,203.58	X									X		-
167350	1/14/2010	1,800.00	X					X				X		1,800.00
168296	1/20/2010	139,351.46	X			X						X		-
170647	2/3/2010	9,521.40	X					X				X		9,521.40
170868	2/4/2010	22,772.80	X			X						X		-
171138	2/5/2010	4,349.40	X					X				X		4,349.40
171920	2/10/2010	2,295.00	X					X				X		2,295.00
172619	2/16/2010	3,236.10	X					X				X		3,236.10
181700	4/8/2010	4,048.00	X					X				X		4,048.00
181635	4/8/2010	1,502.60	X					X				X		1,502.60
185289	4/23/2010	13,570.75	X									X		-
186563	5/4/2010	3,009.60	X									X		-
190490	5/20/2010	504.78	X									X	X	-
194971	6/7/2010	22,698.18	X									X		-
													\$ 582,058.50	



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Condition - Schoolwide Program (continued)

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

CFDA No.	Fund/Program	Amount
N/A	State Funds	\$ 371,638.53
84.394	State Fiscal Stabilization Funds, Recovery Act	58,986.43
84.010	Title I Grants to Local Agencies	63,967.48
84.389	Title I Grants to Local Agencies, Recovery Act	79,499.48
84.367	Improving Teacher Quality State Grants	4,182.10
84.318	Education Technology State Grants	992.63
84.386	Education Technology State Grants, Recovery Act	2,413.11
84.366	Mathematics and Science Partnership	378.75
		<u>\$ 582,058.50</u>

Effect

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

Also, the lack of review of payments 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.

Questioned costs²

CFDA	Program	Amount
84.010	Title I Grants to Local Educational Agencies	\$ 63,967
84.027	Special Education- Grants to States	23,562
84.048	Career and Technical Education-Basic Grants to States	38,315
84.318	Education Technology State Grants	992
84.367	Improving Teacher Quality State Grants	6,998
84.287	Twenty-First Century Community Learning Centers	3,473
84.386	Education Technology State Grants, Recovery Act	2,413
84.389	Title I Grants to Local Educational Agencies, Recovery Act	79,499
84.394	State Fiscal Stabilization Funds, Recovery Act	58,986
	Total questioned costs	<u>\$286,705</u>

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



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 control over the filing and safeguarding of documents in order to easily identify and retrieve payment vouchers.
- 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.



Finding Number: 2010-03

Federal Program: CFDA 84.010, Title I Grant to Local Educational Agencies
CFDA 84.027, Special Education- Grants to States
CFDA 84.048, Career and Technical Education- Basic Grant to States
CFDA 84.213, Even Start-State Educational Agencies
CFDA 84.287, Twenty-First Century Community Learning
CFDA 84.318, Education Technology State Grants
CFDA 84.366, Mathematic and Sciences
CFDA 84.367, Improving Teachers Quality
CFDA 84.386, Education Technology State Grants, Recovery Act
CFDA 84.389, Title I Grant to Local Educational Agencies, Recovery Act
CFDA 84.394, State Fiscal Stabilization Fund, Recovery Act

Federal Agency: U.S. Department of Education

Category: Compliance/ Internal Controls

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

Criteria

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

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

1. A state must expand and account for grant funds in accordance with state laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the state, as well as those of its sub grantees and cost-type contractors, must be sufficient to:
 - a. Permit the preparation of reports required by this part and the statutes authorizing the grant, and
 - b. permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

2. The financial management systems of the grantees and sub grantees must meet the following standards:
 - a. Financial reporting – Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub grant.
 - b. Accounting records – Grantees and sub grantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.



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Criteria (continued)

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

Condition

As part of our audit procedures, we obtained a list of the accounts receivable originated during fiscal year ended June 30, 2010, distributed as follows:

CFDA	Fund/Program	Original Amount	Amount collected during fiscal year 2010	Balance as of June 30, 2010
	State funds			
N/A	General Fund	\$ 1,863,951	\$ 208,577	\$ 1,655,374
	Federal Funds			
84.027	Special Education- Grants to States	81,649	33,839	47,810
84.010	Title I Grants to Local Educational Agencies	409,938	38,520	371,418
84.213	Even Start-State Educational Agencies	45,258	-	45,258
84.389	Title I Grants to Local Educational Agencies, Recovery Act	382,322	44,601	337,721
84.366	Mathematics and Science Partnerships	36,261	34,108	2,153
84.367	Improving Teacher Quality State Grants	60,065	6,695	53,370
84.318	Education Technology State Grants	5,811	600	5,211
84.386	Education Technology State Grants, Recovery Act	11,917	1,362	10,555
84.287	Twenty-First Century Community Learning Centers	9,377	-	9,377
84.394	State Fiscal Stabilization Funds, Recovery Act	197,113	24,201	172,912
84.048	Career and Technical Education-Basic Grants to States	19,494	4,384	15,110
		<u>1,259,205</u>	<u>188,310</u>	<u>1,070,895</u>
	Total	<u>\$ 3,123,156</u>	<u>\$ 396,887</u>	<u>\$ 2,726,269</u>

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



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Effect

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

Questioned costs³

84.010	Title I Grants to Local Educational Agencies	\$ 371,418
84.027	Special Education- Grants to States	47,810
84.048	Career and Technical Education-Basic Grants to States	15,110
84.213	Even Start-State Educational Agencies	45,258
84.287	Twenty-First Century Community Learning Centers	9,377
84.318	Education Technology State Grants	5,211
84.366	Mathematics and Science Partnerships	2,153
84.367	Improving Teacher Quality State Grants	53,370
84.386	Education Technology State Grants, Recovery Act	10,555
84.389	Title I Grants to Local Educational Agencies, Recovery Act	337,721
84.394	State Fiscal Stabilization Funds, Recovery Act	<u>172,912</u>
	Total questioned costs	<u>\$1,070,895</u>

Recommendation

The PRDE shall develop an adequate system over accounts receivable to ascertain that such transactions are timely, complete, and accurate and represent valid claims against vendors, personnel and other parties. These accounts receivable should be investigated and federal funds improperly used returned to the USDE.

³ Amount uncollected as of June 30, 2010 as result of the overpayments paid with federal funds will be questioned.



Finding Number: 2010-04

Federal Program: CFDA 84.186, Safe and Drug-Free Schools and Communities State Grants

Federal Agency: U.S. Department of Education

Category: Compliance/ Internal Controls

Compliance Requirement: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Procurement, Suspension and Debarment

Criteria

OMB Circular A-87 A General Principles for Determining Allowable Costs (c) Section 3 defines an allocable cost as to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

34 CFR 80.36 (b) *Procurement standards.*

(1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and standards.

(4) Grantee and subgrantee procedures will provide for a review of proposed procurements to avoid purchase of unnecessary or duplicative items. Consideration should be given to consolidating or breaking out procurements to obtain a more economical purchase. Where appropriate, an analysis will be made of lease versus purchase alternatives, and any other appropriate analysis to determine the most economical approach.

(9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

34 CFR 80.36 (d) *Methods of procurement to be followed—(3) Procurement by competitive proposals.* The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed-price or cost reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids. If this method is used, the following requirements apply: (i) Requests for proposals will be publicized and identify all evaluation factors and their relative importance. Any response to publicized requests for proposals shall be honored to the maximum extent practical; (ii) Proposals will be solicited from an adequate number of qualified sources; (iii) Grantees and subgrantees will have a method for conducting technical evaluations of the proposals received and for selecting awardees; (iv) Awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered; and (v) Grantees and subgrantees may use competitive proposal procedures for qualifications-based procurement of architectural/engineering (A/E) professional services whereby competitors' qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation. The method, where price is not used as a selection factor,



Criteria (continued)

can only be used in procurement of A/E professional services. It cannot be used to purchase other types of services though A/E firms are a potential source to perform the proposed effort.

OMB Circular A-133, Section 400 (d) (3) establishes that a pass-through entity shall monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goal are achieved.

OMB Circular A-133, Section 400 (d) established that the PRDE shall consider whether sub-recipient audits necessitate adjustment of the pass-through entity's own records.

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.

Condition

The PRDE awarded funds to subrecipients based on proposals designed to prevent and reduce violence associated with prejudice and intolerance among students, teachers and parents. As required all projects shall comply with all requirements as established in section 4115 of Title IV, Part A of the No Child Left Behind Act. These projects are based on seminars directed to parents and students at schools and juvenile institutions.

During our testing over disbursement and subrecipient monitoring we noted five (5) subrecipients in which the original proposals amounting to \$175,003, each, were received by the PRDE; amended proposals were subsequently submitted with an increase of costs of \$63,683, each. Nevertheless, the services to be provided or amount of participants were not amended. One of the five amended proposals included cost for 400 manuals even though the proposal was designed for 300 participants. The PRDE was not able provide evidence on whether the increase in the costs of the services to be received as part of the proposals were in accordance with the relative benefits to be received.

Effect

The lack of adequate procurement procedures in the evaluation of the proposals could lead to questioned costs and administrative action 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.

Questioned costs

Could not be determined



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 control over the filing and safeguarding of documents in order to easily identify and retrieve payment vouchers.
- Establish and implement written policies and procedures to evaluate the proposals to ensure the awards are based on the worthiness of the proposals and the excellence of the proposed projects. The goal in the development of the proposal evaluation process is a reliable, valid and fair system for ranking proposals according to merit. The ultimate objective of the process is the selection of the proposals that most completely satisfy the criteria establish by the program.
- Establish and implement written policies and procedures to enforce the monitoring process to ensure that the subrecipient complies with terms, codditions and specifications set forth in the proposal.
- Provide adequate training to employees regarding each program requirements and the importance of procurement process



Finding Number: 2010-05

Federal Program: CFDA 10,558, Child and Adult Care Food Program
CFDA 84.010, Title I Grants to Local Educational Agencies

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

Category: Compliance/ Internal Controls

Compliance Requirement: Cash Management

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, payrolls, payroll time and attendance records, contract and sub grant award documents, etc.

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, 2008 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 programs of the Child Nutrition Cluster (CFDAs 10.555 and 10.559), Child and Adult Care Food Program, Twenty First Century Learning Centers, Title I Grants to Local Educational Agencies, Special Education – Grants to States, 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 each major program selected for testing. The sample consisted of hundred and nine (109) items with dollar value of \$208,726,406. After performing the cash management test we noted the following:

- In three (3) of the hundred and nine (109) petition of funds examined (2.7%) the request to Federal Government was submitted before the disbursement was realized.



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.

Questioned cost

Could not be determined

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.



Finding Number: 2010-06

Federal Program: CFDA 84.027, Special Education Grant to States

Federal Agency: U.S. Department of Education

Category: Compliance/ Internal Controls

Compliance Requirement: Eligibility

Criteria

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

Condition

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

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

1. Two (2) participant's files selected (1.59% of total sample) were not available for examination,
2. two (2) of the participant's files included in the participants list (1.61% of total sample tested) were not current participants of the Special Education Program. One of them graduated three years ago. The other student was not a participant of the program but a regular student of the school.
3. fifteen (15) of the participant's files tested (12.10% of total sample tested) did not include form SAEE-01 (B) "Referral for Registration",
4. two (2) of the participant's files tested (1.61% of total sample tested) did not include form SAEE-01 (F) "Registration Form",
5. three (3) of the participant's files tested (2.42% of total sample tested) did not include form SAEE-05 "Eligibility Determination",



Condition (continued)

6. four (4) of the participant's files tested (3.23% of total sample tested) did not include form SAEE-06 "Invitation for Meeting for the Development of Individualized Education Program (PEI)",
7. sixteen (16) of the participant's files tested (12.90% of total sample tested) did not include form SAEE-07 "Notice of Children School Location",
8. nine (9) of the participant's files tested (7.26% of total sample tested) did not include form SAEE-09 "Analysis of the Information Available (Re-evaluation)",
9. one (1) of the participant's files tested (0.81% of total sample tested) did not include form SAEE-15 "Registration for People who Request Access to the Students File",
10. eight (8) of the participant's files tested (6.45% of total sample tested) did not include form SAEE-PEI "Individual Education Program",
11. thirty two (32) of the participant's files tested (25.81% of total sample tested) did not have Individualized Education Program (PEI) form signed by the school director,
12. thirty four (34) of the participants tested (27.42% of total sample tested) were not located at the school as registered in the SEASWEB special education system. Participant's information has not been updated on a timely basis,

Effect

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

The PRDE may also be sanctioned due to the lack of documentation regarding the participant's determination of eligibility for children with specific learning disabilities; therefore, ineligible participants may be receiving services under the program.

Questioned costs

Could not be determined

Recommendation

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



Puerto Rico Department of Education

(An Executive Agency of the Commonwealth of Puerto Rico)

Section 3 - Federal Award Findings

Fiscal Year Ended June 30, 2010

Recommendation (Continued)

Additionally, the PRDE shall consider implementing following procedures to prevent the occurrence of the above situations, such as:

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

Finally, PRDE should implement procedures to ensure the Child Count Report contains accurate information.



Finding Number: 2010-07

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

Federal Agency: U.S. Department of Education

Category: Compliance/ Internal Controls

Compliance Requirement: Eligibility for individuals

Criteria

34 CFR Section 668.32 states the general requirements for the student eligibility.

34 CFR Section 690.79 (a) (2) states that the institution is liable for Federal Pell Grant overpayment if the overpayment occurred, because the institution failed to follow the procedures set forth in this part.

Condition

For the fiscal year ended June 30, 2010 a total number of approximately 3,057 students received benefits from the Federal Pell Grant Program. In testing compliance with the requirements related to the eligibility for program participants, we selected a random sample of 120 participants. While performing the eligibility test, we noted the following:

1. In thirty four (34) of the participant's files tested (28%), the Financial Need was calculated incorrectly.
2. In twenty (20) of the participants' files tested (17%), the cost of attendance was calculated incorrectly.
3. In one (1) of the participants' files tested (.8%), the ISIR correctly included two students in college, instead of one. As per the Federal Student Aid (FSA) guides, there is no tolerance for errors in non-dollar items. This information required a correction to the SAR but it was not corrected.
4. In two (2) of the participants' files tested (1.67%), the enrollment form was no located in the file.
5. In one (1) of the participants' files tested (.8%), the "Hoja de Trabajo para Otorgación de Fondos Título IV" was not located. As a consequence, the students' financial need was not examined.
6. In one (1) of the participants' files tested (.8%), the applicants' financial need was incorrectly calculated because the costs used were not the actual costs. As per examination of the response sent by the Financial Aids Office, this student qualified for ACG, but she did not receive this financial aid.



Effect

As a result, eligible students could have received additional federal aids but due to the lack of policies and procedures they were unable to benefit from these aids.

Questioned costs

Could not be determined

Recommendation

We recommend the PRDE to enforce the procedures perform to determine the participants' eligibility requirements in order to determine that only eligible students receive federal aids.



Finding Number: 2010-08

Federal Program: CFDA 84.048, Career and Technical Education- Basic Grants to States

Federal Agency: U.S. Department of Education

Category: Compliance/ Internal Controls

Compliance Requirement: Reporting

Criteria

Each State must annually report to the Secretary the progress of the State in achieving the State-adjusted levels of performance on the core indicators of performance, including the levels of performance achieved by the special population categories described in Section 3(29) of Perkins IV and other student categories described in Section 1111(h)(1)(C)(i) of ESEA (20 USC 6311(h)(1)(C)(i)) (Section 113(c) of Perkins IV (20 USC 2323(c))). This report must be provided as part of each State's December 31 CAR submission.

The Perkins IV core indicators on which States must report aggregate data are:

Secondary Level:

- a. Attainment of academic skills - reading/language arts
- b. Attainment of academic skills - mathematics
- c. Technical skill attainment
- d. School completion
- e. Student graduation rates
- f. Placement
- g. Nontraditional participation
- h. Nontraditional completion

Postsecondary Level:

- a. Technical skill attainment
- b. Credential, certificate, degree
- c. Student retention or transfer
- d. Student placement
- e. Nontraditional participation
- f. Nontraditional completion



Criteria (continued)

States are also required to report disaggregated data on the performance of students by gender, race, ethnicity, migrant status, and the following special population categories described in Section 3(29) of Perkins IV (20 USC 2302 (29))(Section 113(c)(2)(A) of Perkins IV (20 USC 2323(c)(2)(A))):

- a. Individuals with disabilities
- b. Individuals from economically disadvantaged families, including foster children
- c. Individuals preparing for non-traditional fields
- d. Single parents, including pregnant women
- e. Displaced homemakers
- f. Individuals with limited English proficiency.

Each State negotiates with ED adjusted performance levels (i.e. targets) for each core indicator for each program year (Sections 113(b)(3)(A)(iii) and (iv) of Perkins IV (20 USC 2323 (b)(3)(A)(iii) and (iv))). Each State's adjusted performance levels are contained in a 'Final Agreed-Upon Performance Level (FAUPL) Form,' which is incorporated by reference into the State plan and grant award (OMB Number 1830-0029) (Sections 113(b)(3)(A)(iii) and (v) of Perkins IV (20 USC 2323(b)(3)(A)(iii) and (v))).

A State that retains all, or a portion, of its tech prep grant (Title II) for purposes authorized under Title II of Perkins IV must report its tech prep students as a disaggregated population for each of the section 113 indicators in its CAR (Sections 113(c) and 203(e) of Perkins IV (20 USC 2323(c) and 2373(e))).

Each State must review the accountability data submitted by its subrecipients and, in the State's annual CAR submission, (1) indicate the total number of subrecipients that failed to meet at least 90 percent of an agreed upon local adjusted level of performance and that will be required to implement a local program improvement plan for the succeeding program year, and (2) note trends, if any, in the performance of these subrecipients (i.e., core indicators that were most commonly missed, including those for which less than 90 percent was commonly achieved; disaggregated categories of students for whom there were disparities or gaps in performance compared to all students) (Section 113(c) of Perkins IV (20 USC 2323(c))).

Condition

We noted that the PRDE complied with the submission of the Annual Accountability Report (Part D) for the Consolidated Annual Report for the Carl D. Perkins and Technical Education Act of 2006 (CAR) (OMB No. 1830-0569). This report includes the narrative summary, fiscal status report and accountability data for program year 2008-2009. The PRDE failed to meet, its performance level for one of the section 113(b) core indicators of performance by the 90 percent threshold allowable under section 123(a)(1) of Perking IV.



Condition (continued)

A sample of cells on the CAR should be tested (in a similar manner that is done for a financial report) to ensure that the PRDE has data that supports the numbers in the report. The PRDE did not provide support of the information included in this report.

Effect

Information not available at the time of the audit prevents the auditors to determine whether required report includes all activity of the reporting period, are supported by applicable accounting and performance records, and are fairly presented in accordance with governing requirements.

In addition, could prevent federal agencies from monitoring the performance of the program.

Questioned costs

Could not be determined

Recommendation

We recommend the PRDE to develop and implement formal policies and procedures manual to prescribe uniform procedures on the frequency and format of reporting grant levels of performance so that the record keeping system provides the information necessary to:

- Prepare the annual reports accurately and within their required data;
- provide accurate, current, and complete disclosure of the performance results of financially assisted activities in accordance with the financial reporting requirements of the grant; and
- ensure the maintenance of accounting records which adequately identify the source of data obtained for financially-assisted activities.



Finding Number: 2010-09

Federal Program: CFDA 10.558, Child and Adult Care Food Program

Federal Agency: U.S. Department of Agriculture

Category: Compliance/ Internal Controls

Compliance Requirement: Sub-recipient Monitoring

Criteria

According to the OMB Circular No. A-133, Audit of States, Local Governments, and Non-Profit Organizations, Subpart D-Federal Agencies and Pass-Through Entities, Section .400-Responsibilities-Pass-through Entity Responsibilities, a pass-through entity shall perform the following for the Federal awards it makes:

1. Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grants agreements and the performance goal are archived.
2. Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of Circular A-133 for that fiscal year.
3. Issue a management decision on audit findings within six (6) months after receipt of subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
4. Consider whether subrecipient's audits necessitate adjustment of the pass-through entity's own records.

Condition

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

Based on the information provided we noted that one (1) of the sponsoring organizations have not issued a Single Audit Report during the last two years. The PRDE failed to take corrective actions and issue management decisions on this matter.

Effect

Noncompliance with the requirements presented above could lead to significant administrative actions by the grantor. It could also be interpreted as a failure to achieve program objectives.



Questioned costs

Could not be determined

Recommendation

PRDE shall timely respond to the findings resulting from the subrecipient monitoring activities by issuing timely management decisions on such findings and require the subrecipients to take immediate corrective actions in deficiencies identified as applicable. PRDE shall reflect the effect of subrecipients noncompliance on its records.



Finding Number: 2010-10

Federal Program: CFDA 84.287, Twenty-First Century Community Learning Centers

Federal Agency: U.S. Department of Education

Category: Compliance/ Internal Controls

Compliance Requirement: Sub-recipient Monitoring

Criteria

OMB Circular A-133, Section 400 (d) (3) establishes that a pass-through entity shall monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goal are achieved.

Clause II of the contract between PRDE and the sub-recipients establishes that the Final Invoice and the Annual Programmatic and Fiscal Report shall be submitted within 30 days of the contract termination.

Clause 37 of the contract between PRDE and the sub-recipients establishes that if sub-recipients do not exceed spending of \$500,000 in the fiscal period, they should submit audited financial statements in accordance with generally accepted auditing standards. Also, they shall submit a Contract Compliance report.

OMB Circular A-133, Section 400 (d) (5) establishes that the PRDE shall issue a management decision on audit findings within six months after receipt of the sub-recipients audit report and ensure that the sub-recipient takes appropriate and timely corrective action.

OMB Circular A-133, Section 400 (d) established that the PRDE shall consider whether sub-recipient audits require adjustment of the pass-through entity's own records.

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.



Condition

Seventy six (76) sub-recipients participated in the 21st Century Community Learning Centers Program and received total funds of approximately \$19,266,807 during the fiscal year ended June 30, 2010. As part of our audit procedures to test compliance with sub-recipient monitoring requirements, we selected fifteen (15) sub-recipients who were granted to approximately \$4,996,423 or a 26% of total funds granted. While performing our test, the Program Director, indicated that there is no tracking system to assure the timely delivery of reports. Also, while reviewing the sub-recipients files, we noted the following:

1. In three (3) of the sub-recipients' files tested (20%), we noted that the sub-recipient's response to the monitoring reports was not received on time, as required by the PRDE.
2. In two (2) of the sub-recipient's files tested (13.33%), the sub-recipient's response to the monitoring reports was not located.
3. In one (1) of the sub-recipient's files tested (6.67%), we noted that the Financial Report for the first quarter was not received on time, as specified by the contract.
4. In eleven (11) of the sub-recipient's files tested (73.33%), we noted that the Financial Report for the second quarter was not received on time, as specified by the contract.
5. In eight (8) of the sub-recipient's files tested (53%), the Final Financial Report was not received on time, as specified by the contract.
6. In two (2) of the sub-recipient's files tested (13.33%), we noted that the Financial Reports were not prepared quarterly, as required by the contract. Also, in five (5) of the six (6) reports received and examined (85.7%), we noted they were not received on time.
7. In one (1) of the sub-recipient's files tested (6.67%), the Annual Programmatic Report was not located in the file, as required by the contract.
8. In two (2) of the sub-recipient's files tested (13.33%), the Report of Achievements "Informe de Logros" was not received on time, as required by the contract.
9. In nine (9) of the sub-recipient's files tested (60%), the Report of Progress- "Informe de Progreso" was not received on time, as required by the contract.
10. In the only file examined that required action from the PRDE in response to an Agreed Upon Procedure performed to a sub-recipient, there was no evidence of such action.



Effect

Lack of monitoring procedures precludes the PRDE from preventing, or detecting and correct significant instances of noncompliance that may expose PRDE to administrative sanctions and/or questioned costs.

Failure to request the single audits or financial audits and contract compliance report, as applicable, and the inadequate follow up of the contract term and conditions, may increase the possibility of not detecting and correcting, on a timely basis, significant instances of noncompliance. As a consequence, the PRDE can be exposed to cost disallowances. Also, the PRDE may extend the proposal terms to the sub-grantees without ascertaining that the funds previously granted were used properly.

Questioned Costs

Could not be determined

Recommendation

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

Also, we recommend the establishment of procedures to assure that sub-recipients comply with the terms and conditions of the contract between PRDE and sub-recipients. In the event of noncompliance, these procedures will ensure that PRDE take appropriate actions to recover funds granted in order to prevent cost disallowances.

The PRDE shall establish a tracking system to determine that all required reports are received on a timely basis and as required by the contract. Financial Audits and Contract Compliance reports shall be reviewed annually and corrective actions requested immediately.



Finding Number: 2010-11

Federal Program: CFDA 10.550, Food Donation

Federal Agency: U.S. Department of Agriculture

Category: Compliance/ Internal Controls

Compliance Requirement: Special Tests and Provisions- Accounting for Commodities

Criteria

7 CFR 250.14 (e) established that distributing agencies and sub distributing agencies shall take a physical inventory of their storage facilities. The physical inventory shall be reconciled with each storage facility's book inventory.

7 CFR 250.16 (a) (1) establishes that accurate and complete records shall be maintained with respect to receipt, distribution/use and inventory for donated food including:

- a. end products processed for donated food and
- b. the determination made as to liability for any improper distribution, use of, loss of, or damage to, such foods and the results obtained from the pursuit of claims by the distribution agency.

Condition

On December 29, 2010 we visited two (2) of the six (6) storage facilities (33%) of the Food Donation Program. During our on-site visits, we evaluated the criteria and methodology used in maintaining accurate and complete records with respect to the receipt, distribution/use and inventory of donated foods, including products processed from donated foods.

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

Effect

Failure to maintain accurate records as required by 7 CFR Section 250.14 and 16 could be considered prima facie evidence of improper distribution or loss of donated foods and the PRDE may be required to pay the US department of Agriculture based on the value of the food or replace it with in- kind goods.

Questioned costs

Could not be determined



Recommendation

To ensure compliance with the accounting for commodities requirements, we recommend the PRDE to:

1. Perform an assessment to identify non-compliance with policies and procedures established;
2. ascertain that proper inventory system is maintained and the annual inventory is taken and reconciled with the inventory records, and differences, if any, investigated and adjusted promptly;
3. monitor to ensure accurate and complete records are maintained with respect to the receipt, distribution and use of the donated food inventory, and
4. follow up on that corrective actions taken on all deficiencies and inventory discrepancies found.



Finding Number: 2010-12

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

Federal Agency: U.S. Department of Education

Category: Compliance/ Internal Controls

Compliance Requirement: Special Tests and Provisions- Verification

Criteria

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

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

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

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

Condition

In testing compliance with the verification requirements, we randomly selected 120 participants of the Federal Pell Grant Program. During fiscal year 2010, approximately 3,057 students received benefits of this program. While performing the eligibility test, we noted the following:

1. In one (1) of the participant's files tested (.83%), the income included in the SAR was not correct.
2. In one (1) of the participant's files tested (.83%), the Verification Worksheet was not located.
3. In eleven (11) of the participant's files tested (9.17%), the Verification Worksheet was incomplete.



Condition (continued)

4. In one (1) of the participant's files tested (.83%), the Verification Worksheet was not signed by the applicant.
5. In two (2) of the participant's files tested (1.67%), there was a discrepancy between the Institutional Student Information Report (ISIR) or the Student Aid Report (SAR) and the Verification Worksheet related to the number of family members in the household.
6. In two (2) of the participant's files tested (1.67%), there was a discrepancy between the taxes paid as per the tax return and the SAR.

Effect

As a result of the conditions detailed above, the EFC determined could have been incorrect and the Pell grant amount awarded for the incorrect balance.

Questioned costs

Could not be determined

Recommendation

We recommend the PRDE to establish policies and procedures to verify information contained in a student aid application in order to detect and avoid errors in the balances awarded to applicants. We also recommend the review of these cases in order to correct any discrepancies. Balances awarded incorrectly must be reimbursed to the USDE, as applicable.



Finding Number: 2010-13

Federal Program: CFDA 84.010, Title I Grant to Local Educational Agencies
CFDA 84.186, Safe and Drug- Free Schools and Communities State Grants
CFDA 84.287, Twenty-First Century Community Learning
CFDA 84.318, Education Technology State Grants
CFDA 84.367, Improving Teachers Quality State Grants
CFDA 84.386, Education Technology State Grants, Recovery Act
CFDA 84.389, Title I Grant to Local Educational Agencies, Recovery Act
CFDA 84.394, State Fiscal Stabilization Fund, Recovery Act

Federal Agency: U.S. Department of Education

Category: Compliance/ Internal Controls

Compliance Requirement: Special Tests and Provisions- Eligibility for Schoolwide Program

Criteria

A school participating under Title I, part A may, in consultation with its LEA, use its Title I, Part A funds, along with other funds as provided by the program, to upgrade the school's entire educational program in a schoolwide program. At least 40 percent of the children enrolled in the school or residing in the school attendance area for the initial year of the schoolwide program must be from low-income families. The LEA is required to maintain records to demonstrate compliance with this requirement.

34CFR Section 200.26 establishes that to operate a schoolwide program, a school must include three core elements: (1) Comprehensive needs assessment of the entire school; (2) Comprehensive plan based on data from the needs assessment and (3) Annual evaluation of the results achieved by the schoolwide program and revision of the schoolwide plan based on that evaluation.

34CFR Section 200.28 establishes that a schoolwide plan also must include the following components: (1) Schoolwide reform strategies; (2) Instruction by highly qualified professional staff; (3) Strategies to increase parental involvement; (4) Additional support to students experiencing difficulty and Transition plans for assisting preschool children in the successful transition to the schoolwide program.

34CFR Section 200.29 establishes that except as provided in paragraphs (b) (2) and (c) of this section, a schoolwide program school that consolidates Federal, State, and local funds is not required to maintain separate records that identify by program the specific activities supported by those funds. Also, the school is not required to meet most of the statutory and regulatory requirements of the Federal programs included in the consolidation as long as it meets the intent and purposes of those programs.



Condition

In testing compliance with the special test and provisions pertaining to Schoolwide Program requirement, we selected 25 schools participating in this program to determine whether the schools were eligible and (b) the schoolwide programs included the core elements and components required.

While performing this test, we noted the following:

1. In one (1) of the schools tested (4%), the annual evaluation of the results achieved by the schoolwide program and revision of the schoolwide plan based on that evaluation was not provided by PRDE. The Title I Coordinator indicated he has not received the evaluation.
2. In one (1) of the schools tested (4%), the comprehensive needs assessment was approved by the evaluator in the amended federal evaluation. However, the evaluator included comments that could lead to noncompliance. The Title I Coordinator indicated on February 7, 2011 that this amended report could not be the final version, however there was no evidence provided to support his statement.
3. In nine (9) of the schools tested (36%), the assurance of highly qualified professional teachers (HQT) as per the federal evaluation was not approved by the evaluator. This finding was discussed with the Title I Coordinator on February 7, 2011 who referred us to Prof. Lemuel Pérez, Director of the Institute for Teachers' Professional Development "Instituto para el Desarrollo Profesional del Maestro". Prof. Pérez indicated that all teachers are HQT and would provide evidence of this. However, no evidence has been provided.
4. In one (1) of the schools tested (4%), the parental involvement was approved by the evaluator in the amended federal evaluation. However, the evaluator included comments that could lead to noncompliance. The Title I Coordinator indicated on February 7, 2011 that this amended report could not be the final version, but there was no evidence provided to support his statement.
5. In one (1) of the schools tested (4%), the additional activities to support students experiencing difficulty was approved by the evaluator in the amended federal evaluation. However, the evaluator included comments that could lead to noncompliance. The Title I Coordinator indicated on February 7, 2011 that this amended report could not be the final one, but there was no evidence provided to support his statement.
6. In two (2) of the schools tested (8%), the transition plans for children from pre-school to schoolwide programs were not approved by the evaluator in the federal evaluation.
7. In one (1) of the schools tested (4%), the transition plans for children from pre-school to schoolwide programs were approved by the evaluator in the amended federal evaluation. However, the evaluator included comments that could lead to non compliance. The Title I Coordinator indicated on February 7, 2011 that this amended



Condition (continued)

report could not be the final one, but there was no evidence provided to support his statement.

8. In nine (9) of the schools tested (36%), the comprehensive plan reflected that for the year previous to the plan, the percentage of students below the poverty level of 40% was not complied. On February 7, 2011 the Title I Coordinator provided the percentage of these schools as per the social-economic report that revealed they were all in compliance. However, the percentage documented in the comprehensive plan was incorrect.

Effect

The PRDE is exposed to the imposition of administrative sanctions or cost disallowances due to non compliance with specific requirements of the federal department of education. As a consequence, ineligible participants may be receiving funds under this program.

Questioned costs

Could not be determined

Recommendation

We recommend the PRDE that the situations of non-compliance indicated by the evaluator be treated and corrected immediately in order to assure the eligibility requirements are complied.



Finding Number: 2010-14

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

Federal Agency: U.S. Department of Education

Category: Compliance/ Internal Controls

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

Criteria

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

Condition

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

1. We could not determine if the PRDE paid the resulting students' credit balance within fourteen (14) days after crediting the students' account because the date the student was paid was not provided.
2. In four (4) of the disbursement tested (3.33%), the PRDE did not provided the cancelled check for examination. Therefore, we were not able to determine if the disbursements to the students were made within the payment period or semester.
3. In three (3) of the disbursement tested (3%), the students did not study during the second semester. We were not able to determine if the student earned more than 60% of the aid during the first semester because the information was not provided for examination.
4. In fifty (50) of the disbursements tested (41.67%), the PRDE did not pay the students' resulting credit balance within the payment period or semester, as required.
5. In ten (10) of the disbursements tested (8.3%), the resulting credit balance paid to the student was calculated incorrectly.



Effect

The PRDE is depriving these eligible students from receiving the resulting credit balance on a timely manner as specified by the USDE.

Questioned costs

84.063 Federal Pell Grant Program \$ 5,909

Recommendation

We recommend the PRDE to establish adequate policies and procedures for processing Title IV funds. In addition, procedures should be evaluated to ensure that the students receive the funds no later than 14 days after the balance occurred if the credit balance occurred after the first day of class of a payment period or no later than 14 days after the first day of class of a payment period if the credit balance occurred on or before the first day of class of that payment period.



Finding Number: 2010-15

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

Federal Agency: U.S. Department of Education

Category: Compliance/ Internal Controls

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

Criteria

34 CFR sections 668.22 (a) states that when a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs as outlined in this section and no additional disbursements may be made to the student for the payment period or period of enrollment. If the amount the student earned is greater than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement.

34 CFR section 668.22 (b) states that if an institution is required to take attendance the withdrawal date is the last date of academic attendance, as determined by the institution from its attendance records. An institution is required to take attendance if the institution is required to take attendance for some or all of its students by an entity outside of the institution.

34 CFR section 668.22 (e) states that the amount of earned Title IV grant or loan assistance is calculated by determining the percentage of Title IV grant or loan assistance that has been earned by the student and applying that percentage to the total amount of Title IV grant or loan assistance that was or could have been disbursed to the student for the payment period or period of enrollment as of the student's withdrawal date. A student earns 100 percent if his or her withdrawal date is after the completion of more than 60 percent of (1) the calendar days in the payment period or period of enrollment for a program measured in credit hours; or (2) the clock hours scheduled to be completed for the payment period or period of enrollment for a program measured in clock hours. Otherwise, the percentage earned by the student is equal to the percentage (60 percent or less) of the payment period or period of enrollment that was completed as of the student's withdrawal date. The percentage of Title IV grant or loan assistance that has not been earned by the student is the complement of one of these calculations.



Criteria (continued)

34 CFR section 668.22 (f) states that the percentage of the payment period completed or period of enrollment completed is determined in the case of a program that is measured in: (1) credit hours, by dividing the total number of calendar days in the payment period or period of enrollment in the number of calendar days completed in that period as of the student's withdrawal date; (2) clock hours, by dividing the total number of clock hours in the payment period or period of enrollment into the number of clock hours scheduled to be completed as of the student's withdrawal date. The total number of calendar days in a payment or enrollment period includes all days within the period, except institutionally scheduled breaks of at least 5 consecutive calendar days and days in which the student was on an approved leave of absence are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in that period.

34 CFR section 668.173 (b) states that the returns of Title IV funds are required to be deposited or transferred into the SFA account or electronic fund transfers initiated to ED or the appropriate FFEL lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the canceled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew.

Condition

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

While performing this test, we noted the following:

1. In two (2) of the participants file's tested (20%), the withdrawal date in the calculation worksheet was incorrect.
2. In one (1) of the participant's files tested (10%), the percentage of Title IV aid earned by the student was determined incorrectly and the student was required to return earned funds.
3. In one (1) of the participant's files tested (10%), the amount "Hours Schedules to Complete" of Title IV aid earned by the student was determined incorrectly and the student was paid unearned funds.



Condition (continued)

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

Effect

The PRDE incorrectly determined the earned amount for four (4) of the nine (9) students that withdraw from school during 2009-2010. We noted that the schools tested did not follow the same procedure while calculating the return of these funds and as a consequence we note these conditions.

Questioned costs

84.063 Federal Pell Grant Program \$2,402

Recommendation

We recommend the PRDE to establish adequate policies and procedures for determining the return of Title IV funds as required.



APPENDIX
Corrective Action Plan and
Response to Single Audit Report

Puerto Rico Department of Education

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Appendix – Corrective Action Plan and Response to Single Audit Report

Fiscal Year Ended June 30, 2010

Finding No: 2010-01
Topic: Allowability of Costs
Federal Program: N/A
CFDA #: N/A
Questioned Costs: N/A

Condition Found:

During the year ended June 30, 2010, PRDE charged expenditures to General Fund program amounting to \$2,277,790,332. To test compliance with the state laws and regulations, the auditors selected a sample of ninety-eight (98) disbursements charges to state funds amounted to \$235,857,765 that represents (10.3%) of the total population. In testing compliance and internal controls over allowability and procurement requirements for state funds, the auditors noted the following exceptions:

1. In twenty (20) of the cases examined (20% of total sample tested), no procurement documents were provided for examination.
2. In six (6) of the cases examined (6% of total sample tested), no quote, bids, proposal or contract were provided for examination.
3. In seven (7) of the cases examined (7% of total sample tested), no disbursement supporting documents were provided for examination.
4. In one (1) of the cases examined (1% of total sample tested), no supporting invoice was provided for examination.

PRDE Response to Finding:

PRDE agrees with the auditor's statement, at the time of the audit these documents were not available for review. PRDE will carry out all efforts to locate the documentation reported as missing by the auditor, and will have it available for further reviews.

Responsible Person: Carmen Q. Rodríguez, Pre-Intervention Director

Expected completion date: July 31, 2011

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Appendix – Corrective Action Plan and Response to Single Audit Report

Fiscal Year Ended June 30, 2010

Finding No: 2010-02
Topic: Allowability of Costs
Federal Program: Title I Grant to Local Educational Agencies
Special Education- Grants to States
Career and Technical Education- Basic Grant to States
Twenty-First Century Community Learning
Mathematic and Sciences
Improving Teachers Quality
Title I Grant to Local Educational Agencies, Recovery Act
State Fiscal Stabilization Fund, Recovery Act
CFDA #: 84.010, 84.027, 84.048, 84.287, 84.366, 84.367, 84.389, 84.394
Questioned Costs: \$286,705

Condition Found:

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

PRDE Response to Finding:

PRDE partially agrees with the auditor's statement in the fact that at the time of the audit these documents were not available for review. PRDE will carry out all efforts to locate the documentation reported as missing by the auditor, and will have it available for further reviews.

Responsible Person: Carmen Q. Rodríguez, Pre-Intervention Director

Expected completion date: July 31, 2011

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Appendix – Corrective Action Plan and Response to Single Audit Report

Fiscal Year Ended June 30, 2010

Finding No: 2010-03

Topic: Allowability of Costs

Federal Program: Title I Grant to Local Educational Agencies
Special Education- Grants to States
Career and Technical Education- Basic Grant to States
Even Start-State Educational Agencies
Twenty-First Century Community Learning
Education Technology State Grants
Mathematic and Sciences
Improving Teachers Quality
Title I Grant to Local Educational Agencies, Recovery Act
State F

fiscal Stabilization Fund, Recovery Act

CFDA #: 84.010, 84.027, 84.048, 84.213, 84.287, 84.318, 84.366, 84.367, 84.386,
84.389, 84.394

Questioned Costs: \$1,070,895

Condition Found:

In testing compliance and internal control over allowability and procurement and suspension and department requirements, the auditors selected a list of the accounts receivable originated during fiscal year ended June 30, 2010 and some exceptions were noted.

PRDE Response to Finding:

PRDE has developed internal procedures to determine the existence of such account receivables and to make all the necessary efforts to collect them. PRDE will continue with such efforts to collect these balances and prepare any necessary adjustments.

Responsible Person: Carlos M. Santiago, Account Receivable Officer

Expected completion date: To be determined

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Appendix – Corrective Action Plan and Response to Single Audit Report

Fiscal Year Ended June 30, 2010

Finding No: 2010-04
Topic: Activities Allowed or Unallowed, Allowable Cost/ Cost Principles.
Procurement, Suspension and Department
Federal Program: Safe & Drug-Free Schools and Communities State Grants
CFDA #: 84.186
Questioned Costs: Could not be determined

Condition Found:

During the auditor's test over disbursement and subrecipient monitoring, they noted five (5) subrecipients that submit original proposals amounting to \$175,003, each; amended proposals were subsequently submitted with an increase of costs of \$63,683, each. Nevertheless, the services to be provided or amount of participants were not amended. One of the five amended proposals included cost for 400 manuals even though the proposal was designed for 300 participants. The PRDE was not able to provide evidence on whether the increase in the costs of the services to be received as part of the proposals, were in accordance with the relative benefits to be received.

PRDE Response to Finding:

PRDE will carry out all efforts needed to locate the evidence reported as missing by the auditor in order to demonstrate the benefits mentioned.

Responsible Person: Rina González Gelpi, Director of Office of Federal Affairs

Expected completion date: December 31, 2011

Puerto Rico Department of Education

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Appendix – Corrective Action Plan and Response to Single Audit Report

Fiscal Year Ended June 30, 2010

Finding No: 2010-05
Topic: Cash Management
Federal Program: Title I Grant to Local Educational Agencies
Child and Adult Care Food Program
CFDA #: 84.010, 10.558
Questioned Costs: Could not be determined

Condition Found:

For determine compliance with the cash management agreement, the auditors requested the petitions of funds for a sample of transactions for each major program selected for testing. The sample consisted of hundred and nine (109) items with dollar value of \$208,726,406. After performing the cash management test the auditors noted the following:

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

PRDE Response to Finding:

PRDE agrees with this finding. PRDE has implemented a procedure named: Early Warning System. The procedure consists that the Program Coordinator and the Program Fiscal will monitor the services and the invoicing process of the proposals granted to follow-up the amounts expended and invoiced. Each program should prepare a report at each month end. The main purpose of this process is to avoid retaining funds as assigned to the projects when they are not providing the services and in a reasonable time re-assigning the funds to other projects that has the real commitment in offering the services. This procedure will be useful in identifying an ineffective and/or 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 on a timely manner and before PRDE submits the fund request. This new procedure will improve the monitoring of the use of funds and will reduce the likelihood that funds are requested before expended.

Responsible Person: Judith Parrilla, Reporting and Cash Management Supervisor

Expected completion date: N/A

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Appendix – Corrective Action Plan and Response to Single Audit Report

Fiscal Year Ended June 30, 2010

Finding No: 2010-06
Topic: Eligibility
Federal Program: Special Education Cluster
CFDA #: 84.027, 84.173
Questioned Costs: Could not be determined

Condition Found:

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

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

1. Two (2) participant's files tested (1.61%) were not available for examination.
2. Two (2) of the participant's files included in the participants list (1.65%) were not current participants of the Special Education Program. One of them graduated three years ago. The other student was not a participant of the program; there is a regular student of the school.
3. Eighteen (18) of the participant's files tested (14.52%) did not include form SAEE-01 "Report on Academic School Performance".
4. Fifteen (15) of the participant's files tested (12.10%) did not include form SAEE-01 (B) "Referral for Registration".
5. Two (2) of the participant's files tested (1.61%) did not include form SAEE-01 (F) "Registration Form".
6. Three (3) of the participant's files tested (2.42%) did not include form SAEE-05 "Eligibility Determination".
7. Four (4) of the participant's files tested (3.23%) did not include form SAEE-06 "Invitation for Meeting for the Development of Individualized Education Program (PEI)".
8. Sixteen (16) of the participant's files tested (12.90%) did not include form SAEE-07 "Notice of Children School Location".
9. Nine (9) of the participant's files tested (7.26%) did not include form SAEE- 09 "Analysis of the Information Available (Re-evaluation)".
10. One (1) of the participant's files tested (.81%) did not include form SAEE-15 "Registration for People who Request Access to the Students File".

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Appendix – Corrective Action Plan and Response to Single Audit Report

Fiscal Year Ended June 30, 2010

Condition Found: (continued)

11. Eight (8) of the participant's files tested (6.45%) did not include form SAEE-PEI "Individual Education Program".
12. Thirty two (32) of the participant's files tested (25.81%) did not have Individualized Education Program (PEI) form signed by the school director.
13. Thirty four (34) of the participant's tested (27.42%) were not located at the school as registered in the SEASWEB special education system. Participant's information has not been updated on a timely basis.

PRDE Response to Finding:

PRDE recognizes the importance of complying with all the requirements in making the appropriate use of the Federal State Grants. For this reason, PRDE will initiate a throughout review for each file tested with the purpose of gathering the information reported as missing by the auditors in their report and demonstrate that these students were eligible to receive the program assistance.

Responsible Person: Johan Serrano, Auxiliary Secretary of Special Education

Expected completion date: December 31, 2011

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Appendix – Corrective Action Plan and Response to Single Audit Report

Fiscal Year Ended June 30, 2010

Finding No: 2010-07
Topic: Eligibility for individual
Federal Program: Student Financial Assistance Cluster
CFDA #: 84.007, 84.375, 84.063, 84.033
Questioned Costs: Could not be determined

Condition Found:

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

1. In thirty four (34) of the participant's files tested (28%), the Financial Need was calculated incorrectly.
2. In twenty (20) of the participant's files tested (17%), the cost of attendance was calculated incorrectly.
3. In one (1) of the participant's files tested (.8%), the ISIR correctly included two students in college, instead of one. As per the Federal Student Aid (FSA) guides, there is no tolerance for errors in non dollar items. This information required a correction to the SAR but it was not corrected.
4. In two (2) of the participant's files tested (1.67%), the enrollment form was not located in the file.
5. In one (1) of the participant's files tested (.8%), the "Hoja de Trabajo para otorgación de Fondos Título IV" was not located. As a consequence, the students' financial need was not examined.
6. In one (1) of the participant's files tested (.8%), the applicants' financial need was incorrectly calculated because the cost used were not the actual cost. As per examination of the response sent by the Financial Aids Office, this student qualified for the ACG, but she did not receive this financial aid.

PRDE Response to Finding:

PRDE partially disagrees with this finding. PRDE believes that some of the missing documentation is available in the respective institutes 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: Carmen Zoé Ramírez, Program Coordinator

Expected completion date: December 31, 2011

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Appendix – Corrective Action Plan and Response to Single Audit Report

Fiscal Year Ended June 30, 2010

Finding No: 2010-08
Topic: Reporting
Federal Program: Career and Technical Education
CFDA #: 84.048
Questioned Costs: Could not be determined

Condition Found:

The auditors noted that PRDE complied with the submission of the Annual Accountability Report (Part D) for the Consolidated Annual Report for the Carl D. Perkins and Technical Education Act of 2006 (CAR) (OMB No. 1830-0569). However, they were not able to examine a sample of cells on the CAR to ascertain that the PRDE has data that support the numbers in the report.

PRDE Response to Finding:

PRDE has complied with all the reporting requirements applicable for this program. The data that supports the numbers in the report is now available for further review.

Responsible Person: Helen Sosa, Vocational Director

Expected completion date: March 31, 2010

Puerto Rico Department of Education

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Appendix – Corrective Action Plan and Response to Single Audit Report

Fiscal Year Ended June 30, 2010

Finding No: 2010-09
Topic: Sub-recipient Monitoring
Federal Program: Child and Adult Care Food Program
CFDA #: 10.558
Questioned Costs: Could not be determined

Condition Found:

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

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

PRDE Response to Finding:

PRDE recognizes the importance to comply with the subrecipient monitoring requirement. At the time of this audit, the organization mentioned by the auditors is still working in finalizing and submitting their Single Audit reports. PRDE have made all the necessary efforts to receive such report.

Responsible Person: Aida Medina, Child and Adult Care Food Program Coordinator

Expected completion date: September 30, 2011

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Appendix – Corrective Action Plan and Response to Single Audit Report

Fiscal Year Ended June 30, 2010

Finding No: 2010-10
Topic: Sub-recipient Monitories
Federal Program: Twenty – First Century Community Learning Centers
CFDA #: 84.287
Questioned Costs: Could not be determined

Condition Found:

Seventy six (76) sub-recipients participated in the 21st Century Community Learning Centers Program and received total funds of \$19,266,807 during the fiscal year ended June 30, 2010. As part of the auditor's procedures to test compliance with the sub-recipient monitoring requirement, they selected fifteen (15) sub-recipients who were granted \$4,996,423 or a 26% of total funds granted. While performing their test, the Program Director, indicated that there is no tracking system to assure the timely delivery of reports. In addition, while reviewing the sub-recipients files, we noted the following:

1. In three (3) of the sub-recipients' files tested (20%), we noted that the subrecipients response to the monitories was not received on time, as required by the PRDE.
2. In one (1) of the sub-recipient's files tested (6.67%), the sub-recipient's response to the monitories was not located.
3. In one (1) of the sub-recipient's files tested (6.67%), we noted that the Financial Report for the first quarter was not received on time, as specified by the contract.
4. In eleven (11) of the sub-recipient's files tested (73.33%), we noted that the Financial Report for the second quarter was not received on time, as specified by the contract.
5. In eight (8) of the sub-recipient's files tested (53.33%), the Final Financial Report was not received on time, as specified by the contract.
6. In two (2) of the sub-recipient's files tested (13.33%), we noted that the Financial Reports were not prepared quarterly, as required by the contract. Also, in five (5) of the six (6) reports received and examined (85.7%), we noted they were not received on time.
7. In one (1) of the sub-recipient's files tested (6.67%), the Annual Programmatic Report was not located in the file, as required by the contract.
8. In two (2) of the sub-recipient's files tested (13.33%), the Report of Achievements "Informe de Logros" was not received on time, as required by the contract.
9. In eight (8) of the sub-recipient's files tested (53.33%), the Report of Progress "Informe de Progreso" was not received on time, as required by the contract.
10. In the only file examined that required action from the PRDE in response to an Agreed Upon Procedure performed to a sub-recipient, there was no evidence of such action.

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Appendix – Corrective Action Plan and Response to Single Audit Report

Fiscal Year Ended June 30, 2010

PRDE Response to Finding:

In relation with the first auditor's statement, PRDE partially disagrees. 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. However, the 21st Century Program provided corresponding follow up to the subrecipients. Most of the findings that resulted from the monitoring visits are considered recommendations for improvement of the services that the subrecipient provides to the participant. For this reason, recommendations are not considered findings and do not represent noncompliance of a state or federal regulation.

For the second auditor's statement, PRDE disagrees. The subrecipient submitted a corrective action plan to the 21st Century Program. However, evidence and corrective action plan did not comply with the program's request. For this reason, the program requested the subrecipient an appropriate corrective action plan that responds to the monitoring findings.

For the following four auditor's statements, where the auditor states Financial Reports were not received on time; PRDE agrees. For this reason, the 21st Century Program will notify the subrecipients, which are in noncompliance with the contract clause related to this issue, to submit their Quarterly Financial Reports on time. If corrective action is not carried out within the remaining quarters, the 21st Century Program will apply management decision for the following contract, as stated in the contract.

In relation with the auditor statement that indicates in one (1) of the sub-recipient's files tested, the Annual Programmatic Report was not located in the file, as required by the contract. PRDE partially disagrees with the auditor statement in the extent that 21st Century Program provided corresponding follow up to the subrecipient. However, PRDE recognizes the importance of receiving Annual Programmatic Report on time.

Related to the statement that indicates that in two (2) of the sub-recipient's files tested, the Report of Achievements ("Informe de Logros") was not received on time, as required by the contract. PRDE recognizes the importance of receiving on time the achievements report to have knowledge of the effectiveness in which federal funds were used. Therefore, the 21st Century Program provided corresponding follow up to the subrecipient, requesting the Report of Achievements as contract requires.

In relation with the auditor statement indicating that in eight (8) of the sub-recipient's files tested, the Progress Report "Informe de Progreso" was not received on time, as required by the contract; PRDE partially disagrees. PRDE recognizes the importance of receiving on time the progress report to have knowledge of the effectiveness in which federal funds were used. For this reason the 21st Century Program provided corresponding follow up to the subrecipient, requesting the Progress Report as contract requires.

For the final auditor statement, which indicates that in a file examined, requiring action from the PRDE in response to an Agreed Upon Procedure performed to a sub-recipient, there was no evidence of such action; PRDE agrees with the auditor.

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Appendix – Corrective Action Plan and Response to Single Audit Report
Fiscal Year Ended June 30, 2010

PRDE Response to Finding: (continued)

PRDE recognizes the importance of the results from an Agreed Upon Procedure performed to a subrecipient. The program will provide the corresponding follow-up in order to assure the subrecipient corrects deficiencies encountered.

Responsible Person: Sonia Arvelo, Twenty First Century Program Coordinator

Expected completion date: September 30, 2011

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Appendix – Corrective Action Plan and Response to Single Audit Report

Fiscal Year Ended June 30, 2010

Finding No: 2010-11
Topic: Special Tests and Provisions – Accounting for Commodities
Federal Program: Child Nutrition Cluster
CFDA #: 10.550, 10.555, 10.559
Questioned Costs: Could not be determined

Condition Found:

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

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

PRDE Response to Finding:

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

Responsible Person: José Torres, School Food Authority Distribution & Storage Director

Expected completion date: N/A

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Appendix – Corrective Action Plan and Response to Single Audit Report
Fiscal Year Ended June 30, 2010

Finding No: 2010-12
Topic: Special Tests and Provisions - Verification
Federal Program: Student Financial Assistance Cluster
CFDA #: 84.007, 84.375, 84.063, 84.033
Questioned Costs: Could not be determined

Condition Found:

In testing compliance with the verification requirements, the auditors randomly selected 120 participants of the Federal Pell Grant Program. During fiscal year 2010, the amount of 3,057 students received benefits of this program.

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

1. In one (1) of the participant's files tested (.83%), the income included in the SAR was not correct.
2. In one (1) of the participant's files tested (.83%), the Verification Worksheet was not located.
3. In eleven (11) of the participant's files tested (9%), the Verification Worksheet was incomplete.
4. In one (1) of the participant's files tested (.83%), the Verification Worksheet was not signed by the applicant.
5. In two (2) of the participant's files tested (1.67%), there was a discrepancy between the Institutional Student Information Report (ISIR) or the Student Aid Report (SAR) and the Verification Worksheet related to the number of family members in the household.
6. In two (2) of the participant's files tested (1.67%), there was a discrepancy between the taxes paid as per the tax return and the SAR.

PRDE Response to Finding:

PRDE partially disagrees with this finding. PRDE believes that some of the missing documentation is available in the respective institutes 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: Carmen Zoé Ramírez, Program Coordinator

Expected completion date: December 31, 20

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Appendix – Corrective Action Plan and Response to Single Audit Report

Fiscal Year Ended June 30, 2010

Finding No: 2010-13
Topic: Eligibility for Schoolwide Program
Federal Program: Title I Grants to Local Educational Agencies
Title I Grants to Local Educational Agencies, Recovery Act
Safe and Drug Free Schools and Communities State Grants
Twenty First Century – Community Learning Centers
Education Technology State Grants
Education Technology State Grants, Recovery Act
Improving Teachers Quality State Grants
State Fiscal Stabilization Fund
CFDA #: 84.010, 84.389, 84.186, 84.287, 84.318, 84.386, 84.367, 84.394
Questioned Costs: Could not be determined

Condition Found:

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

While performing this test, the auditors noted the following:

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

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Appendix – Corrective Action Plan and Response to Single Audit Report

Fiscal Year Ended June 30, 2010

Condition Found: (continued)

7. In one (1) of the 25 schools tested (4%), the transition plans for children from pre-school to schoolwide programs were approved by the evaluator in the amended federal evaluation. However, the evaluator included comments that could lead to noncompliance.
8. In nine (9) of the 25 schools tested (36%), the comprehensive plan reflected that for the year previous to the plan, the percentage of students below poverty levels of 40% was not complied.

PRDE Response to Finding:

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

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

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

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

In relation with the last auditor's statement indicating in nine (9) of the 25 schools tested the comprehensive plan reflected that for the year previous to the plan, the percentage of students below poverty levels of 40% was not complied; PRDE disagrees. For some reason not known by the program, the socioeconomic survey percentage data available electronically was not consistent with reality. For this reason, the Title I program provided the auditors the correct socioeconomic survey data. Therefore, PRDE disagrees with the auditor, stating the students below poverty levels of 40% did not complied, because the correct percentages were provided to the auditors.

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Appendix – Corrective Action Plan and Response to Single Audit Report

Fiscal Year Ended June 30, 2010

Responsible Person: Bernice Echevarría, Title I Interim Program Coordinator

Expected completion date: May 31, 2011

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Appendix – Corrective Action Plan and Response to Single Audit Report

Fiscal Year Ended June 30, 2010

Finding No: 2010-14
Topic: Special Tests and Provisions – Disbursement to or on behalf of students
Federal Program: Student Financial Assistance Cluster
CFDA #: 84.007, 84.375, 84.063, 84.033
Questioned Costs: \$5,909

Condition Found:

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

While performing this test, the auditors noted the following:

1. The auditor were not able to determine if the PRDE paid the resulting students' credit balance within fourteen (14) days after crediting the students' account because the date the student was paid was not provided.
2. In four (4) of the disbursement tested (3.33%), the PRDE did not provided the cancelled check for examination. Therefore, the auditors were not able to determine if the disbursements to the students were made within the payment period or semester.
3. In three (3) of the disbursement tested (3%), the students did not study during the second semester. We were not able to determine if the student earned more than 60% of the aid during the first semester because the information was not provided for examination.
4. In fifty (50) of the disbursements tested (41.67%), the PRDE did not pay the students' resulting credit balance within the payment period or semester, as required.
5. In ten (10) of the disbursements tested (8.3%), the resulting credit balance paid to the student was calculated incorrectly.

PRDE Response to Finding:

PRDE agrees with this finding. PRDE is aware of the importance of complying with the proper return of Title IV funds and will evaluate the internal process in order to prepare the disbursement in an efficient and timely manner. It is important to mention that the different institutes are located island-wide and the Office of Technical Education which is ascribed to the Assistance Secretary of Occupational and Technical Education process all student applications in order to obtain the final approval for the disbursement. It is well to mention that the disbursement are prepared and processed at the Finance Department at the Central Level of PRDE. In order to resolve this situation, we have conducted several meetings with the Assistant Secretary for Finance to improve the internal process. One of the results of these meeting was that programming as part of PRDE Financial System SIFDE ("Sistema de Información Financiera del Departamento de Educación" for its acronym in Spanish) that results that the

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Appendix – Corrective Action Plan and Response to Single Audit Report

Fiscal Year Ended June 30, 2010

Condition Found: (continued)

student will received their reimbursement directly from the Treasury Department thus reducing the number of days of such process.

Responsible Person: Carmen Zoé Ramírez, Program Coordinator

Expected completion date: December 31, 2011

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Appendix – Corrective Action Plan and Response to Single Audit Report

Fiscal Year Ended June 30, 2010

Finding No: 2010-15
Topic: Special Test and Provisions – Return of Title IV Funds
Federal Program: Student Financial Assistance Cluster
CFDA #: 84.007, 84.375, 84.063, 84.033
Questioned Costs: \$2,402

Condition Found:

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

While performing this test, the auditors noted the following:

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

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Appendix – Corrective Action Plan and Response to Single Audit Report

Fiscal Year Ended June 30, 2010

Condition Found: (continued)

10. In one (1) of the participant's files tested (10%), the amount of Title IV earned by the student was calculated incorrectly and the student was not paid the total applicable earned funds.

PRDE Response to Finding:

PRDE partially disagrees with this finding. PRDE believes that some of the missing documentation is available in the respective institutes 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: Carmen Zoé Ramírez, Program Coordinator

Expected completion date: December 31, 2011

APPENDIX
Auditors' Rebuttals to PRDE Audit
Findings Responses

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Appendix – Auditors' Rebuttals to PRDE Response to Single Audit Report

Fiscal Year Ended June 30, 2010

Finding No: 2010-01
Topic: Allowability of Costs
Federal Program: N/A
CFDA #: N/A
Questioned Costs: N/A

Condition Found:

During the year ended June 30, 2010, PRDE charged expenditures to General Fund program amounting to \$2,277,790,332. To test compliance with the state laws and regulations, the auditors selected a sample of ninety-eight (98) disbursements charges to state funds amounted to \$235,857,765 that represents (10.3%) of the total population. In testing compliance and internal controls over allowability and procurement requirements for state funds, the auditors noted the following exceptions:

1. In twenty (20) of the cases examined (20% of total sample tested), no procurement documents were provided for examination.
2. In six (6) of the cases examined (6% of total sample tested), no quote, bids, proposal or contract were provided for examination.
3. In seven (7) of the cases examined (7% of total sample tested), no disbursement supporting documents were provided for examination.
4. In one (1) of the cases examined (1% of total sample tested), no supporting invoice was provided for examination.

PRDE Response to Finding:

PRDE agrees with the auditor's statement, at the time of the audit these documents were not available for review. PRDE will carry out all efforts to locate the documentation reported as missing by the auditor, and will have it available for further reviews.

Auditors' Rebuttal:

None

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Appendix - Auditors' Rebuttals to PRDE Response to Single Audit Report
Fiscal Year Ended June 30, 2010

Finding No: 2010-02
Topic: Allowability of Costs
Federal Program: Title I Grant to Local Educational Agencies
Special Education- Grants to States
Career and Technical Education- Basic Grant to States
Twenty-First Century Community Learning
Mathematic and Sciences
Improving Teachers Quality
Title I Grant to Local Educational Agencies, Recovery Act
State Fiscal Stabilization Fund, Recovery Act
CFDA #: 84.010, 84.027, 84.048, 84.287, 84.366, 84.367, 84.389, 84.394
Questioned Costs: \$286,705

Condition Found:

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

PRDE Response to Finding:

PRDE partially agrees with the auditor's statement in the fact that at the time of the audit these documents were not available for review. PRDE will carry out all efforts to locate the documentation reported as missing by the auditor, and will have it available for further reviews.

Auditors' Rebuttal:

We have considered PRDE's response and planned corrective action plan. However, the response to this finding does not change the condition or our recommendation.

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Appendix - Auditors' Rebuttals to PRDE Response to Single Audit Report
Fiscal Year Ended June 30, 2010

Finding No: 2010-03
Topic: Allowability of Costs
Federal Program: Title I Grant to Local Educational Agencies
Special Education- Grants to States
Career and Technical Education- Basic Grant to States
Even Start-State Educational Agencies
Twenty-First Century Community Learning
Education Technology State Grants
Mathematic and Sciences
Improving Teachers Quality
Title I Grant to Local Educational Agencies, Recovery Act
State Fiscal Stabilization Fund, Recovery Act
CFDA #: 84.010, 84.027, 84.048, 84.213, 84.287, 84.318, 84.366, 84.367, 84.386,
84.389, 84.394
Questioned Costs: \$1,070,895

Condition Found:

In testing compliance and internal control over allowability and procurement and suspension and department requirements, the auditors selected a list of the accounts receivable originated during fiscal year ended June 30, 2010 and some exceptions were noted.

PRDE Response to Finding:

PRDE has developed internal procedures to determine the existence of such account receivables and to make all the necessary efforts to collect them. PRDE will continue with such efforts to collect these balances and prepare any necessary adjustments.

Auditors' Rebuttal:

None

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Appendix - Auditors' Rebuttals to PRDE Response to Single Audit Report
Fiscal Year Ended June 30, 2010

Finding No: 2010-04
Topic: Activities Allowed or Unallowed, Allowable Cost/ Cost Principles.
Procurement, Suspension and Department
Federal Program: Safe & Drug-Free Schools and Communities State Grants
CFDA #: 84.186
Questioned Costs: Could not be determined

Condition Found:

During the auditor's test over disbursement and subrecipient monitoring, they noted five (5) subrecipients that submit original proposals amounting to \$175,003, each; amended proposals were subsequently submitted with an increase of costs of \$63,683, each. Nevertheless, the services to be provided or amount of participants were not amended. One of the five amended proposals included cost for 400 manuals even though the proposal was designed for 300 participants. The PRDE was not able to provide evidence on whether the increase in the costs of the services to be received as part of the proposals, were in accordance with the relative benefits to be received.

PRDE Response to Finding:

PRDE will carry out all efforts needed to locate the evidence reported as missing by the auditor in order to demonstrate the benefits mentioned.

Auditors' Rebuttal:

None

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Appendix - Auditors' Rebuttals to PRDE Response to Single Audit Report
Fiscal Year Ended June 30, 2010

Finding No: 2010-05
Topic: Cash Management
Federal Program: Title I Grant to Local Educational Agencies
Child and Adult Care Food Program
CFDA #: 84.010, 10.558
Questioned Costs: Could not be determined

Condition Found:

For determine compliance with the cash management agreement, the auditors requested the petitions of funds for a sample of transactions for each major program selected for testing. The sample consisted of hundred and nine (109) items with dollar value of \$208,726,406. After performing the cash management test the auditors noted the following:

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

PRDE Response to Finding:

PRDE agrees with this finding. PRDE has implemented a procedure named: Early Warning System. The procedure consists that the Program Coordinator and the Program Fiscal will monitor the services and the invoicing process of the proposals granted to follow-up the amounts expended and invoiced. Each program should prepare a report at each month end. The main purpose of this process is to avoid retaining funds as assigned to the projects when they are not providing the services and in a reasonable time re-assigning the funds to other projects that has the real commitment in offering the services. This procedure will be useful in identifying an ineffective and/or 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 on a timely manner and before PRDE submits the fund request. This new procedure will improve the monitoring of the use of funds and will reduce the likelihood that funds are requested before expended.

Auditors' Rebuttal:

None

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Appendix - Auditors' Rebuttals to PRDE Response to Single Audit Report
Fiscal Year Ended June 30, 2010

Finding No: 2010-06
Topic: Eligibility
Federal Program: Special Education Cluster
CFDA #: 84.027, 84.173
Questioned Costs: Could not be determined

Condition Found:

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

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

1. Two (2) participant's files tested (1.61%) were not available for examination.
2. Two (2) of the participant's files included in the participants list (1.65%) were not current participants of the Special Education Program. One of them graduated three years ago. The other student was not a participant of the program; there is a regular student of the school.
3. Eighteen (18) of the participant's files tested (14.52%) did not include form SAEE-01 "Report on Academic School Performance".
4. Fifteen (15) of the participant's files tested (12.10%) did not include form SAEE-01 (B) "Referral for Registration".
5. Two (2) of the participant's files tested (1.61%) did not include form SAEE-01 (F) "Registration Form".
6. Three (3) of the participant's files tested (2.42%) did not include form SAEE-05 "Eligibility Determination".
7. Four (4) of the participant's files tested (3.23%) did not include form SAEE-06 "Invitation for Meeting for the Development of Individualized Education Program (PEI)".
8. Sixteen (16) of the participant's files tested (12.90%) did not include form SAEE-07 "Notice of Children School Location".
9. Nine (9) of the participant's files tested (7.26%) did not include form SAEE- 09 "Analysis of the Information Available (Re-evaluation)".
10. One (1) of the participant's files tested (.81%) did not include form SAEE-15 "Registration for People who Request Access to the Students File".

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Appendix - Auditors' Rebuttals to PRDE Response to Single Audit Report
Fiscal Year Ended June 30, 2010

Condition Found: (continued)

11. Eight (8) of the participant's files tested (6.45%) did not include form SAEE-PEI "Individual Education Program".
12. Thirty two (32) of the participant's files tested (25.81%) did not have Individualized Education Program (PEI) form signed by the school director.
13. Thirty four (34) of the participant's tested (27.42%) were not located at the school as registered in the SEASWEB special education system. Participant's information has not been updated on a timely basis.

PRDE Response to Finding:

PRDE recognizes the importance of complying with all the requirements in making the appropriate use of the Federal State Grants. For this reason, PRDE will initiate a throughout review for each file tested with the purpose of gathering the information reported as missing by the auditors in their report and demonstrate that these students were eligible to receive the program assistance.

Auditors' Rebuttal:

None

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Appendix - Auditors' Rebuttals to PRDE Response to Single Audit Report
Fiscal Year Ended June 30, 2010

Finding No: 2010-07
Topic: Eligibility for individual
Federal Program: Student Financial Assistance Cluster
CFDA #: 84.007, 84.375, 84.063, 84.033
Questioned Costs: Could not be determined

Condition Found:

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

1. In thirty four (34) of the participant's files tested (28%), the Financial Need was calculated incorrectly.
2. In twenty (20) of the participant's files tested (17%), the cost of attendance was calculated incorrectly.
3. In one (1) of the participant's files tested (.8%), the ISIR correctly included two students in college, instead of one. As per the Federal Student Aid (FSA) guides, there is no tolerance for errors in non dollar items. This information required a correction to the SAR but it was not corrected.
4. In two (2) of the participant's files tested (1.67%), the enrollment form was not located in the file.
5. In one (1) of the participant's files tested (.8%), the "Hoja de Trabajo para otorgación de Fondos Título IV" was not located. As a consequence, the students' financial need was not examined.
6. In one (1) of the participant's files tested (.8%), the applicants' financial need was incorrectly calculated because the cost used were not the actual cost. As per examination of the response sent by the Financial Aids Office, this student qualified for the ACG, but she did not receive this financial aid.

PRDE Response to Finding:

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

Auditors' Rebuttal:

We have considered PRDE's response and planned corrective action plan. However, the response to this finding does not change the condition or our recommendation.

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Appendix - Auditors' Rebuttals to PRDE Response to Single Audit Report
Fiscal Year Ended June 30, 2010

Finding No: 2010-08
Topic: Reporting
Federal Program: Career and Technical Education
CFDA #: 84.048
Questioned Costs: Could not be determined

Condition Found:

The auditors noted that PRDE complied with the submission of the Annual Accountability Report (Part D) for the Consolidated Annual Report for the Carl D. Perkins and Technical Education Act of 2006 (CAR) (OMB No. 1830-0569). However, they were not able to examine a sample of cells on the CAR to ascertain that the PRDE has data that support the numbers in the report.

PRDE Response to Finding:

PRDE has complied with all the reporting requirements applicable for this program. The data that supports the numbers in the report is now available for further review.

Auditors' Rebuttal:

None

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Appendix - Auditors' Rebuttals to PRDE Response to Single Audit Report
Fiscal Year Ended June 30, 2010

Finding No: 2010-09
Topic: Sub-recipient Monitoring
Federal Program: Child and Adult Care Food Program
CFDA #: 10.558
Questioned Costs: Could not be determined

Condition Found:

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

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

PRDE Response to Finding:

PRDE recognizes the importance to comply with the subrecipient monitoring requirement. At the time of this audit, the organization mentioned by the auditors is still working in finalizing and submitting their Single Audit reports. PRDE have made all the necessary efforts to receive such report.

Auditors' Rebuttal:

None

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Appendix - Auditors' Rebuttals to PRDE Response to Single Audit Report
Fiscal Year Ended June 30, 2010

Finding No: 2010-10
Topic: Sub-recipient Monitories
Federal Program: Twenty – First Century Community Learning Centers
CFDA #: 84.287
Questioned Costs: Could not be determined

Condition Found:

Seventy six (76) sub-recipients participated in the 21st Century Community Learning Centers Program and received total funds of \$19,266,807 during the fiscal year ended June 30, 2010. As part of the auditor's procedures to test compliance with the sub-recipient monitoring requirement, they selected fifteen (15) sub-recipients who were granted \$4,996,423 or a 26% of total funds granted. While performing their test, the Program Director, indicated that there is no tracking system to assure the timely delivery of reports. In addition, while reviewing the sub-recipients files, we noted the following:

1. In three (3) of the sub-recipients' files tested (20%), we noted that the subrecipients response to the monitories was not received on time, as required by the PRDE.
2. In one (1) of the sub-recipient's files tested (6.67%), the sub-recipient's response to the monitories was not located.
3. In one (1) of the sub-recipient's files tested (6.67%), we noted that the Financial Report for the first quarter was not received on time, as specified by the contract.
4. In eleven (11) of the sub-recipient's files tested (73.33%), we noted that the Financial Report for the second quarter was not received on time, as specified by the contract.
5. In eight (8) of the sub-recipient's files tested (53.33%), the Final Financial Report was not received on time, as specified by the contract.
6. In two (2) of the sub-recipient's files tested (13.33%), we noted that the Financial Reports were not prepared quarterly, as required by the contract. Also, in five (5) of the six (6) reports received and examined (85.7%), we noted they were not received on time.
7. In one (1) of the sub-recipient's files tested (6.67%), the Annual Programmatic Report was not located in the file, as required by the contract.
8. In two (2) of the sub-recipient's files tested (13.33%), the Report of Achievements "Informe de Logros" was not received on time, as required by the contract.
9. In eight (8) of the sub-recipient's files tested (53.33%), the Report of Progress "Informe de Progreso" was not received on time, as required by the contract.
10. In the only file examined that required action from the PRDE in response to an Agreed Upon Procedure performed to a sub-recipient, there was no evidence of such action.

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Appendix - Auditors' Rebuttals to PRDE Response to Single Audit Report
Fiscal Year Ended June 30, 2010

PRDE Response to Finding:

In relation with the first auditor's statement, PRDE partially disagrees. 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. However, the 21st Century Program provided corresponding follow up to the subrecipients. Most of the findings that resulted from the monitoring visits are considered recommendations for improvement of the services that the subrecipient provides to the participant. For this reason, recommendations are not considered findings and do not represent noncompliance of a state or federal regulation.

For the second auditor's statement, PRDE disagrees. The subrecipient submitted a corrective action plan to the 21st Century Program. However, evidence and corrective action plan did not comply with the program's request. For this reason, the program requested the subrecipient an appropriate corrective action plan that responds to the monitoring findings.

For the following four auditor's statements, where the auditor states Financial Reports were not received on time; PRDE agrees. For this reason, the 21st Century Program will notify the subrecipients, which are in noncompliance with the contract clause related to this issue, to submit their Quarterly Financial Reports on time. If corrective action is not carried out within the remaining quarters, the 21st Century Program will apply management decision for the following contract, as stated in the contract.

In relation with the auditor statement that indicates in one (1) of the sub-recipient's files tested, the Annual Programmatic Report was not located in the file, as required by the contract. PRDE partially disagrees with the auditor statement in the extent that 21st Century Program provided corresponding follow up to the subrecipient. However, PRDE recognizes the importance of receiving Annual Programmatic Report on time.

Related to the statement that indicates that in two (2) of the sub-recipient's files tested, the Report of Achievements ("Informe de Logros") was not received on time, as required by the contract. PRDE recognizes the importance of receiving on time the achievements report to have knowledge of the effectiveness in which federal funds were used. Therefore, the 21st Century Program provided corresponding follow up to the subrecipient, requesting the Report of Achievements as contract requires.

In relation with the auditor statement indicating that in eight (8) of the sub-recipient's files tested, the Progress Report "Informe de Progreso" was not received on time, as required by the contract; PRDE partially disagrees. PRDE recognizes the importance of receiving on time the progress report to have knowledge of the effectiveness in which federal funds were used. For this reason the 21st Century Program provided corresponding follow up to the subrecipient, requesting the Progress Report as contract requires.

For the final auditor statement, which indicates that in a file examined, requiring action from the PRDE in response to an Agreed Upon Procedure performed to a sub-recipient, there was no evidence of such action; PRDE agrees with the auditor.

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Appendix - Auditors' Rebuttals to PRDE Response to Single Audit Report
Fiscal Year Ended June 30, 2010

PRDE Response to Finding: (continued)

PRDE recognizes the importance of the results from an Agreed Upon Procedure performed to a subrecipient. The program will provide the corresponding follow-up in order to assure the subrecipient corrects deficiencies encountered.

Auditors' Rebuttal:

We have considered PRDE's response and planned corrective action plan. However, the response to this finding does not change the condition or our recommendation.

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Appendix - Auditors' Rebuttals to PRDE Response to Single Audit Report
Fiscal Year Ended June 30, 2010

Finding No: 2010-11
Topic: Special Tests and Provisions – Accounting for Commodities
Federal Program: Child Nutrition Cluster
CFDA #: 10.550, 10.555, 10.559
Questioned Costs: Could not be determined

Condition Found:

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

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

PRDE Response to Finding:

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

Auditors' Rebuttal:

None

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Appendix - Auditors' Rebuttals to PRDE Response to Single Audit Report
Fiscal Year Ended June 30, 2010

Finding No: 2010-12
Topic: Special Tests and Provisions - Verification
Federal Program: Student Financial Assistance Cluster
CFDA #: 84.007, 84.375, 84.063, 84.033
Questioned Costs: Could not be determined

Condition Found:

In testing compliance with the verification requirements, the auditors randomly selected 120 participants of the Federal Pell Grant Program. During fiscal year 2010, the amount of 3,057 students received benefits of this program.

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

1. In one (1) of the participant's files tested (.83%), the income included in the SAR was not correct.
2. In one (1) of the participant's files tested (.83%), the Verification Worksheet was not located.
3. In eleven (11) of the participant's files tested (9%), the Verification Worksheet was incomplete.
4. In one (1) of the participant's files tested (.83%), the Verification Worksheet was not signed by the applicant.
5. In two (2) of the participant's files tested (1.67%), there was a discrepancy between the Institutional Student Information Report (ISIR) or the Student Aid Report (SAR) and the Verification Worksheet related to the number of family members in the household.
6. In two (2) of the participant's files tested (1.67%), there was a discrepancy between the taxes paid as per the tax return and the SAR.

PRDE Response to Finding:

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

Auditors' Rebuttal:

We have considered PRDE's response and planned corrective action plan. However, the response to this finding does not change the condition or our recommendation.

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Appendix - Auditors' Rebuttals to PRDE Response to Single Audit Report
Fiscal Year Ended June 30, 2010

Finding No: 2010-13
Topic: Eligibility for Schoolwide Program
Federal Program: Title I Grants to Local Educational Agencies
Title I Grants to Local Educational Agencies, Recovery Act
Safe and Drug Free Schools and Communities State Grants
Twenty First Century – Community Learning Centers
Education Technology State Grants
Education Technology State Grants, Recovery Act
Improving Teachers Quality State Grants
State Fiscal Stabilization Fund
CFDA #: 84.010, 84.389, 84.186, 84.287, 84.318, 84.386, 84.367, 84.394
Questioned Costs: Could not be determined

Condition Found:

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

While performing this test, the auditors noted the following:

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

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Appendix - Auditors' Rebuttals to PRDE Response to Single Audit Report

Fiscal Year Ended June 30, 2010

7. In one (1) of the 25 schools tested (4%), the transition plans for children from pre-school to schoolwide programs were approved by the evaluator in the amended federal evaluation. However, the evaluator included comments that could lead to noncompliance.
8. In nine (9) of the 25 schools tested (36%), the comprehensive plan reflected that for the year previous to the plan, the percentage of students below poverty levels of 40% was not complied.

PRDE Response to Finding:

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

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

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

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

In relation with the last auditor's statement indicating in nine (9) of the 25 schools tested the comprehensive plan reflected that for the year previous to the plan, the percentage of students below poverty levels of 40% was not complied; PRDE disagrees. For some reason not known by the program, the socioeconomic survey percentage data available electronically was not consistent with reality. For this reason, the Title I program provided the auditors the correct socioeconomic survey data. Therefore, PRDE disagrees with the auditor, stating the students below poverty levels of 40% did not complied, because the correct percentages were provided to the auditors.

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Appendix - Auditors' Rebuttals to PRDE Response to Single Audit Report
Fiscal Year Ended June 30, 2010

Auditors' Rebuttal:

In relation to the first statement indicating one (1) of the annual evaluation was not available for revision, we have considered PRDE's response and planned corrective action plan. However, the response to this finding does not change the condition or our recommendation.

In relation with the second, fourth, fifth and seventh statement, we have considered PRDE's response and planned corrective action plan. However, the response to this finding does not change the condition or our recommendation.

In relation with the third statement indicating that nine (9) of the 25 schools tested the assurance of highly qualified professional teachers (HQT) as per the federal evaluation was not approved by the evaluator; PRDE disagrees. According to the intention of the Title I requirements, it is desired that all teachers become Highly Qualified Teachers (HQT). We have considered PRDE's response and planned corrective action plan. However, the response to this finding does not change the condition or our recommendation.

In relation with the seventh statement indicating that in two (2) of the 25 schools tested the transition plans for children from pre-school to schoolwide programs were not approved by the evaluator in the federal evaluation; we have no rebuttal. PRDE agree with this finding.

In relation with the last statement, statement indicating that nine (9) of the 25 schools tested the assurance of highly qualified professional teachers (HQT) as per the federal evaluation was not approved by the evaluator. The socioeconomic survey percentage data provided by the PRDE the student poverty level was above 40%. We have considered PRDE's response and planned corrective action plan. However, the response to this finding does not change the condition or our recommendation.

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Appendix - Auditors' Rebuttals to PRDE Response to Single Audit Report
Fiscal Year Ended June 30, 2010

Finding No: 2010-14
Topic: Special Tests and Provisions – Disbursement to or on behalf of students
Federal Program: Student Financial Assistance Cluster
CFDA #: 84.007, 84.375, 84.063, 84.033
Questioned Costs: \$5,909

Condition Found:

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

While performing this test, the auditors noted the following:

1. The auditor were not able to determine if the PRDE paid the resulting students' credit balance within fourteen (14) days after crediting the students' account because the date the student was paid was not provided.
2. In four (4) of the disbursement tested (3.33%), the PRDE did not provided the cancelled check for examination. Therefore, the auditors were not able to determine if the disbursements to the students were made within the payment period or semester.
3. In three (3) of the disbursement tested (3%), the students did not study during the second semester. We were not able to determine if the student earned more than 60% of the aid during the first semester because the information was not provided for examination.
4. In fifty (50) of the disbursements tested (41.67%), the PRDE did not pay the students' resulting credit balance within the payment period or semester, as required.
5. In ten (10) of the disbursements tested (8.3%), the resulting credit balance paid to the student was calculated incorrectly.

PRDE Response to Finding:

PRDE agrees with this finding. PRDE is aware of the importance of complying with the proper return of Title IV funds and will evaluate the internal process in order to prepare the disbursement in an efficient and timely manner. It is important to mention that the different institutes are located island-wide and the Office of Technical Education which is ascribed to the Assistance Secretary of Occupational and Technical Education process all student applications in order to obtain the final approval for the disbursement. It is well to mention that the disbursement are prepared and processed at the Finance Department at the Central Level of PRDE. In order to resolve this situation, we have conducted several meetings with the Assistant Secretary for Finance to improve the internal process. One of the results of these meeting was that programming as part of PRDE Financial System SIFDE ("Sistema de Información Financiera del Departamento de Educación" for its acronym in Spanish) that results that the

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Appendix - Auditors' Rebuttals to PRDE Response to Single Audit Report
Fiscal Year Ended June 30, 2010

Condition Found: (continued)

student will received their reimbursement directly from the Treasury Department thus reducing the number of days of such process.

Auditors' Rebuttal:

None

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Appendix - Auditors' Rebuttals to PRDE Response to Single Audit Report
Fiscal Year Ended June 30, 2010

Finding No: 2010-15
Topic: Special Test and Provisions – Return of Title IV Funds
Federal Program: Student Financial Assistance Cluster
CFDA #: 84.007, 84.375, 84.063, 84.033
Questioned Costs: \$2,402

Condition Found:

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

While performing this test, the auditors noted the following:

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

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Appendix - Auditors' Rebuttals to PRDE Response to Single Audit Report
Fiscal Year Ended June 30, 2010

Condition Found: (continued)

10. In one (1) of the participant's files tested (10%), the amount of Title IV earned by the student was calculated incorrectly and the student was not paid the total applicable earned funds.

PRDE Response to Finding:

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

Auditors' Rebuttal:

We have considered PRDE's response and planned corrective action plan. However, the response to this finding does not change the condition or our recommendation.

APPENDIX
Summary Schedule of Prior Year
Audit Findings

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION
Summary Schedule of Prior Year Findings
YEAR ENDED JUNE 30, 2010

Finding Number	First appear in year	CFDA Number	Questioned Cost	Status	Management Corrective Action Plan	Anticipated Completion Date	Responsible Officer	Contact Number
09-01	1991	Not applicable	None	Corrected	<p>First condition found by the auditors: PRDE has segregated its response in two components. PRDE monthly and year-end closing procedures always requires the posting of adjustments and these are considered a normal process. The fiscal agent of the Puerto Rico Treasury Department requires the posting of adjustments and corrections as part of the books closing 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.</p> <p>The second component is for amounts transferred to the community Schools Administration and the Office for the Improvements of the Public Schools. This condition found does not provide sufficient detail to allow the Department to prepare a responsible corrective action plan. Even though, we met with the external auditors to try to obtain details supporting the finding, the only information provided was the one included within the finding. The Department understands that its current oversight activities over these offices are appropriate to meet its responsibilities.</p> <p>Second condition found: PRDE did not obtain sufficient detail from external auditors to prepare a responsible corrective action plan. Efforts to obtain details that supported the findings were unsuccessful.</p> <p>PRDE recognizes that three trial balances were provided to the external auditors, with the underlying reason that significant adjustments were identified and ending balances changed. This is found to be an appropriate internal control over financial reporting because the Department proactively posted the necessary adjustments and corrections to provide the external auditors accurate information for their audit.</p>	N/A	Ines Martin Carib, PRDE Finance Director	787-773-2660
09-02	2009	Not applicable	None	Corrected	<p>PRDE disagrees with the auditor's statement since the financial reporting monitoring activities mentioned on the findings already has been implemented or replaced with a customized transaction that provided appropriate tracking of the transactions. For the first point, related to audit links, these tracks were modified and customized to provide the audit tracking of the transactions. The modified application provides the expected and necessary results. For the second point, related to the PeopleSoft security document, it is currently in the update process. For the third point, related to data dictionary for the database of SFIDE, the data dictionary is available for review. In the fourth point, related to the unlocking system, PRDE provides the necessary privileges to the designated personnel approved by management. For the fifth point, related to Backup and recovery, the backup and recovery policy by the corresponding area, and currently is fully implemented. For the sixth point which included topics by the corresponding area, the tests conducted several audits which scope addressed information technology adequacy and overall internal controls, key financial controls. Also should be mentioned that the external auditor did not have communication with the Internal Audit Office personnel to support their findings. The most recent audit assessment was performed on September 2010, and the Internal Audit Office has the corresponding report available upon request. For the last point, PRDE assigned a generic username to an external contractor that performed a special project. All transactions recorded under such username were the responsibility of the external contractor as an entity and not as an individual.</p>		Rina Gonzalez, PRDE Federal Affairs Director	787-773-2003
09-03	2001	Not applicable	None	Partially - Corrected	<p>PRDE disagrees with the auditor's finding. PRDE has a Strategic Plan for Information Technology and approved by management. This is a master plan of all PRDE systems that has been active since 2007 until 2012. Based on the Strategic Plan, PRDE has implemented various systems such as SIE, SFIDE, TAL, SEASWeb, among others. This Plan is aligned with the requirements set by the Federal Government and they have knowledge of its existence and implementation. The Information Technology Strategies are constantly revised in order to adapt them to new goals and expectations of the current administration.</p>	June 30, 2012	Richard Cruz-Franqui, PRDE CIO	787-773-5816
09-04	2001	Not applicable	None	Corrected	<p>PRDE disagrees with the auditor's finding. PRDE has various security policies such as: backup process, contingencies plan, process for de-active users accounts, procedures for physical access to systems, among others. This security policies and procedures had been established by memorandum or specific manuals. On August 20, 2010, Information System Office and the Technological Support Unit established comprehensive security policies and formalized all the security policies previously established. This Information Security Plan is available upon request.</p>	November 30, 2010	Jese Narvaez, PRDE OSIAI Director	787-759-2000 Ext. 7430
09-05	2001	Not applicable	None	Corrected	<p>PRDE disagrees with the auditor's finding. PRDE has security policies already in use. The current security policies had been revised in order to reinforce, update, and adapt them to new systems and the reduction of personnel. The security policies included appropriate use of internet services, appropriate management of equipment, among others. The security policies are included in the Information Security Plan dated on August 26, 2010. The Information Security Plan is available upon request.</p>	November 30, 2010	Maria Ortiz, PRDE CACTE Director	787-773-3075
09-06	2008	Not applicable	None	Corrected	<p>PRDE recognized that some additional improvements could be done for the better tracking of documentation and the prompt admission of information when requested. For this reason, the PRDE Finance Division, with the approval of the Information Technology Office, requested during the financial audit, designated personnel to identify, analyze, label and file their documentation to the fiscal year 2009-10. As of the date, information is located in the Finance Division Area, and will be sent to the General Filing Area, once the audit for the year 2009-10 is completed.</p>	June 30, 2010	Nilda Morales, PRDE Property and Equipment Director	787-773-2563
09-07	2001	Not applicable	None	Partially - Corrected	<p>PRDE has initiated the process of evaluating external Professional Services proposal in order to obtain appropriate recommendations on how 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 laws as well as proprietary, ethical, operational, and privacy considerations. The proposal also addresses how to improve the classification of data as Confidential, Agency-Sensitive, or Public. At the moment, the System Security proposal is being evaluated by the PRDE Administrative Under-Secretary.</p>	June 30, 2011	Richard Cruz-Franqui, PRDE CIO	787-773-5816

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION
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YEAR ENDED JUNE 30, 2010

Finding Number	Finding repeated in 2010	First appear in year	CFDA Number	Questioned Cost	Status	Management Corrective Action Plan	Anticipated Completion Date	Responsible Officer	Contact Number
09-08		2007	Not applicable	None	Partially - Corrected	PRDE has gathered some of the information reported as missing by the external auditors and they are available for review. From the forty (40) cases examined from which no procurement documents were provided for examination, PRDE has gathered evidence for nineteen (19) of them. From the fifty-four (54) cases examined from which no quotes, bids, proposal or contract were provided for examination, PRDE has gathered evidence for twenty-three (23) of them.	July 31, 2010	Carmen O. Rodriguez, Pre-Intervention Director	787-773-2612
09-09		2006	Various	undeterminable	Partially - Corrected	On June 2010, USDE formally requested PRDE to submit additional information related to this finding. PRDE gathered supporting documents and submitted such information as of July 2010. Information submitted to USDE includes the following: PRDE disagrees with this finding for various reasons. First, because the auditor's working papers only stated that two (2) teachers licenses were not found in their corresponding personnel files and not four (4) as mentioned in the finding. For this reason, PRDE has concentrated its efforts on obtaining evidence for the two (2) teachers mentioned in the auditor's working papers. In relation to the auditor's statement, where neither of the two teacher licenses were found, PRDE disagrees with both of statements. For one (1) of the files, PRDE obtained copy of the teacher's license. We have retained copy of the evidence for the remaining file. PRDE verified the teacher's file and according to the PRDE teacher's certification regulation, this educator was allowed to exercise as an elementary english teacher, even though it didn't possess a teacher's license. According to article 11 of the PRDE teacher's certification regulation, a provisional certificate is issued to those educators who don't reunite all requirements to be a certified teacher, but are in process to obtain them. For PRDE, the elementary english teacher position is a high demand and difficult recruitment position and until a certified teacher becomes available to cover such position, PRDE grants the position to a provisional teacher. For this reason, PRDE disagrees with the auditor's statement because this person was under a provisional teacher certificate at the moment it exercised as an elementary english teacher.	July 31, 2010	Richard Vazquez, PRDE Time Distribution Director	787-773-2085
09-11		1994	Various	\$3,163,184	Partially - Corrected	On June 2010, USDE formally requested PRDE to submit additional information related to this finding. PRDE gathered supporting documents and submitted such information as of July 2010. The total questioned cost that should be deleted from the information gathered are \$2.2 million. This amount represents 70% of total questioned costs in the finding. PRDE will continue its effort to locate the remaining evidence and will submit it to USDE when gathered.	June 30, 2010	Nilda Morales, PRDE Property and Equipment Director	787-773-2563
09-12		2006	Various	None	Corrected	PRDE agrees with this finding. PRDE has completed the process of implementing the Early Warning System as of 2008. With this process, the Coordinator and Fiscal Officers are assigned to the finding and are assigned to project what they are not providing the services and in a reasonable time to support the funds to the project which has the real commitment in offering the services. Also, this Early Warning System is designed to maintain control of the involving process upon the services provided. It identifies an effective and efficient use 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 receives 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.	N/A	Judith Parilla, PRDE Reporting and Cash Management Supervisor	787-773-2647
09-13		1998	Various	None	Partially - Corrected	For the six (6) out of sixty-four (64) disbursements examined, whose purchase supporting documents were not available for our examination, PRDE is unable to provide any additional information. The reason for this is that the auditor's working papers did not specify which of the (64) items had its purchase supporting documents missing. PRDE requested the external auditors a detail of the working papers, but never received such specifications. For the six (6) out of sixty-four (64) disbursements examined, that the property custodian could not be found in the PRDE property register, the USDE subsequently requested PRDE to submit evidence to respond to the auditor's statement. PRDE submitted evidence for five (5) of the six (6) disbursements questioned. PRDE then initiated the process to gather the missing information for the remaining disbursement and was able to confirm that Special Education Program was the custodian of the equipment purchased. This evidence was sent to USDE and is also available for review.	June 30, 2010	Nilda Morales, PRDE Property and Equipment Director	787-773-2563
09-14		2004	84-002	Undeterminable	Partially - Corrected	In response to finding 2009-14, indicating PRDE was noncompliant in regards to AEFLA beneficiary requirements, PRDE asserts that the auditors did not apply the appropriate statutory criteria regarding the documentation required to be in the participant's file to determine eligibility. In the auditors' review of beneficiary files the auditors cited lack of documentation supporting eligibility. Specifically, the auditors cited lack of evidence supporting age, social security number, vaccine information, and evidence that a beneficiary was not enrolled in school. PRDE is not required by the AEFLA or the implementing regulations to collect a potential participant's birth certificate or other certain official documentation. Further, this policy was validated by OVAE in 2004. As stated by OVAE in the FY04 PRDE Audit Response Agreement Finding 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." Accordingly, PRDE asserts that we should not be cited for not having the aforementioned documentation in beneficiary files. PRDE determines eligibility through the use of an application form. The form, titled "Eligibility Certification for Educational Services", requires the applicant to present to the school director "an original birth certificate, vaccine certificate (for applicants 21 years or younger), social security or residence card, official withdrawal from school (for applicants 18 years or younger), the expiration of the participant's enrollment in school on the Eligibility Certificate, Education System, and School Enrollment Form." PRDE asserts that PRDE may not have contained the Eligibility Certification requirements. To the extent that a file reviewed by the auditors may not have contained the Eligibility Certification for Educational Services form, PRDE recognizes the need to strengthen our internal controls to ensure that each file does contain this form and is working towards doing so.	N/A	Dimitris E. Piruz, Gullon, PRDE Adm. Program Coordinator	787-773-3467

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION
Summary Schedule of Prior Year Findings
YEAR ENDED JUNE 30, 2010

Finding Number	Finding repeated in 2010	First appear in year	Finding (Condition Found)	CFDA Number	Questioned Cost	Status	Management Corrective Action Plan	Anticipated Completion Date	Responsible Officer	Contact Number
09-15		2007	This PRDE submitted to USDE the final Financial Status Report (Form SF-269) after the 90 calendar days required by the Federal Government.	84.002	None	Partially - Corrected	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 understands 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.	N/A	Sheila Vasquez, PRDE Accounting Director	787-773-2660
09-16		2006	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 hand in to the PRDE the Corrective Action Plan.	84.318	None	Corrected	PRDE disagrees with this finding. PRDE performed corresponding monitoring activity on this subrecipient to ensure compliance with applicable federal requirements and the subrecipient submitted a Corrective Action Plan as requested by the program. Corrective Action Plan is available upon request.	N/A	Rafael Cruz Cruz, PRDE Education Technology Program Coordinator	787-773-2392
09-17		2006	Auditors review a sample of 23 subrecipients and noted that seven (7) of such subrecipients the PRDE could not provide evidence that they have received timely corrective actions on deficiencies identified in monitoring activities.	84.287	None	Corrected	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 were considered of low level of importance. Low level of importance findings are recommendations given to the subrecipients by the Monitoring Unit in order to improve the services provided to the Program's participants. For the remaining subrecipient, monitoring finding was considered relevant and 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 concluded finding did not proceed for supporting evidence to be provided. Following this action, personnel of the program submitted a report indicating the status of the matter previously discussed. For all seven (7) subrecipients PRDE received the corresponding Corrective Action Plan, even though those were received after the internally proposed period of twenty (20) days, as established in the Program's monitoring guides. PRDE does not agree with this finding because PRDE performed follow up procedures in requesting the Corrective Action Plans from the subrecipients. 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.	N/A	Sonia Arvelo, PRDE 21st Century Program Coordinator	787-773-2096
09-18		2005	Auditors review ten (10) subrecipients files for fiscal year 2008-09 and stated that for four (4) of such subrecipients, PRDE could not provide evidence that they performed oversight and monitoring procedures.	84.002	None	Partially - Corrected	PRDE recognizes the importance of the monitoring process to ensure that the funds granted are properly used by subrecipients. Nevertheless, PRDE disagrees with this finding because monitoring procedures in order to ensure fulfillment of applicable federal compliance requirements to the program's performance goals are being achieved. Adult Education Program prepared a monitoring schedule for these subrecipients and performed monitoring activities to three (3) of the four (4) subrecipients mentioned in the above statement. The evidence of the monitoring activities realized for the fiscal years 2008-09 and 2009-10 is available for review at the Program Office. For the remaining subrecipient, for which monitoring activity hasn't been performed, the Adult Education Program maintains it on schedule and will perform it before year-end.	May 31, 2010	Damaris E. Perez Guillen, PRDE Adult Program Coordinator	787-773-3497
09-19		2005	The auditors reviewed ten (10) subrecipients files for fiscal year 2008-2009 and disclosed that two (2) of such subrecipients, the audit files do not contained written management decisions.	84.002	None	Partially - Corrected	PRDE recognizes the importance of the monitoring process to ensure that the funds granted are properly used by subrecipients. Nevertheless, PRDE disagrees with this finding because on the monitoring finding 2009-18 items two (2) subrecipients are already mentioned, stating that monitoring activity was performed during 2008-09. For this reason, PRDE understands, no additional finding concerning the monitoring topic, needs to be presented for these two subrecipients. It is understood that none of the monitoring procedures were performed. Nevertheless, the Adult Education Program subsequently performed the monitoring activity for one of the subrecipients mentioned in this finding and no written management decision was necessary to be submitted because no findings were obtained in the monitoring activity performed. Therefore no Corrective Action Plan was needed to be requested. For the remaining subrecipient, the Adult Education Program maintains it on schedule to perform its monitoring activity.	N/A	Damaris E. Perez Guillen, PRDE Adult Program Coordinator	787-773-3497
09-20		2005	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 of 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.	84.002	None	Corrected	PRDE recognizes the importance of the monitoring process to ensure that the funds granted are properly used by subrecipients. According to the auditor's working papers, two (2) subrecipients did not contained adequate documentation of the follow up on the implementation of corrective actions. PRDE disagrees with this finding. The file for the two subrecipients mentioned in the finding did contained all documents that responded properly to monitoring findings. Monitoring activity and Corrective Action Plan were performed and requested the same date. Subrecipient submitted Corrective Action Plan, in response to the finding obtained in the monitoring activities. For this reason PRDE does not agree with the external auditor statement.	N/A	Damaris E. Perez Guillen, PRDE Adult Program Coordinator	787-773-3497
09-21		2008	The auditors reviewed four (4) subrecipients 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.	84.367	None	Partially - Corrected	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 has required the subrecipient, through a written communication, to take immediate corrective actions on identified deficiencies and will be following up on such matters.	June 30, 2010	Ava Mena, PRDE Eligible Services Program Coordinator	787-773-2025
09-22		2005	In testing compliance with the return of Title IV funds requirements, the auditors 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 incorrect clock hours in the calculation worksheet to withdraw purposes.	84.003 84.003 84.375	\$517.25	Partially - Corrected	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.	N/A	Carmen Zoa-Ramirez, PRDE Student Financial Assistance Programs Program Coordinator	787-773-6688
09-23		2006	In testing the accounting records of the PRDE, the auditors found that in two of the campuses (San Juan Tools and Dye School in Bayamon), the PRDE does not have a reconciling system that allows an easy audit trail of all transactions involving the processing of financial aid.	84.007 84.033 84.375	Undeterminable	Partially - Corrected	PRDE has implemented the Campus Information System (CIS) application in the Student Financial Assistance Program. The program has requested all campuses to submit active student information in order to be integrated to the system. The information requested includes name, address, grades of students for the year 2009-10 and such information must be submitted by October 15, 2010. Mrs. Maritza Barrientos, Information System Analyst from the Student Financial Assistance Program is in charge of the active students data import. Campus system implementation is to be completed by December 2010.	December 31, 2010	Carmen Zoa-Ramirez, PRDE Student Financial Assistance Programs Program Coordinator	787-773-6688

COMMONWEALTH OF PUERTO RICO
 DEPARTMENT OF EDUCATION
 Summary Schedule of Prior Year Findings
 YEAR ENDED JUNE 30, 2010

Finding Number	Finding repeated in 2010	First appear in year	Finding (Condition Found)	CEEA Number	Questioned Cost	Status	Management Corrective Action Plan	Anticipated Completion Date	Responsible Officer	Contact Number
09-24		2002	<p>PRDE disbursed federal funds under the Federal Pell Grant Program (PELL) for \$10,619,448 in benefit of 2,304 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 PELL program who were awarded \$169,834 (1.59%).</p> <p>PRDE could not provide for the auditors examination evidence that the corresponding disbursement was realized no later than fourteen (14) days after the disbursement occurred on the credit balance occurred after the first day of class of each class. (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.</p>	84.007 84.003 84.003 84.375	Undeterminable	Corrected	<p>PRDE disagrees with this finding. PRDE provided all the evidence requested by the external auditors at the line 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.</p>	December 31, 2010	Carmen Zoé Ramirez, PRDE Student Financial Assistance Programs Program Coordinator	787-773-6689