



Kevane

Grant Thornton

Financial Statement and Report of
Independent Certified Public Accountants

Puerto Rico Department of Education

(An Executive Agency of the Commonwealth of Puerto Rico)

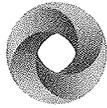
Single Audit Package

June 30, 2014

Puerto Rico Department of Education
(An Executive Agency of the Commonwealth of Puerto Rico)

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Report of Independent Certified Public Accountants

Honorable Prof. Rafael Román Meléndez
Secretary
Department of Education of the
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Report on the Financial Statement

We have audited the accompanying statement of cash receipts and cash disbursements (“the financial statement”) of the **Puerto Rico Department of Education** (“PRDE”) (“the Entity”), an executive agency of the Commonwealth of Puerto Rico, for the year ended June 30, 2014, and the related notes to the financial statement.

Management’s Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 2; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity’s preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the statement of cash receipts and cash disbursements of the **Puerto Rico Department of Education** for the year ended June 30, 2014, in accordance with the cash basis of accounting described in Note 2.

Basis of Accounting

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

Other Matters

As discussed in the Note 6 (d) to the Statement, 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, 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 (d) to the Statement.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 be presented to supplement the Statement. Such information, although not a part of the Statement, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the Statement, and other knowledge we obtained during our audit of the Statement. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the Statement taken as a whole. The accompanying schedule of expenditures of federal awards as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the Statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Statement. The information has been subjected to the auditing procedures applied in the audit of the Statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Statement, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the Statement as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2015, on our consideration of the Entity's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Entity's internal control over financial reporting and compliance.

San Juan, Puerto Rico,
March 30, 2015.

Kevane Grant Thornton LLP



Puerto Rico Department of Education

(An Executive Agency of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis

June 30, 2014

Introduction

This section of the financial statements is classified by the Governmental Accounting Standard Board (GASB) as Required Supplementary Information (RSI). It is intended to provide an objective and easy readable analysis of the government's financial activities. Along with the Statement of Cash Receipts and Disbursements, the management's discussion and analysis should provide the users with the most relevant information regarding the financial condition of the Puerto Rico Department of Education ("PRDE") as of June 30, 2014 including a general comparison to the prior fiscal year. The management of PRDE provides this annual financial report and the management's discussion and analysis of the PRDE's financial performance during the fiscal year ended June 30, 2014. This report includes the cash received and cash paid as a result of the operating activities of the PRDE including funds appropriated by the Commonwealth of Puerto Rico ("the Commonwealth") and federal financial assistance programs granted by the US Governmental Agencies (USGA).

Overview of the Financial Statements

The annual report includes the independent auditors' report, the statement of cash receipts and cash disbursements, the schedule of expenditures of federal awards and the management's discussion and analysis. This report also includes notes that explain in detail the information contained in the statement of cash receipts and cash disbursements. The discussion will focus on major components of the statement of cash receipts and disbursements along with any facts, conditions or decisions that are expected to have a significant impact on the activities of PRDE.

Financial Analysis of the Statement of Cash Receipts and Cash Disbursements

Total Governmental Activities

The Statement of Cash Receipts and Cash Disbursements presents within its cash receipts the funds appropriated by the Commonwealth and the grants received from USGA. It also presents its cash disbursements by program/function. The difference between the cash receipts and disbursements is presented as an excess or deficiency for the year. All this combined provides the general financial information of PRDE; however, one will need to consider other nonfinancial factors within any comprehensive analysis.

Puerto Rico Department of Education
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Management's Discussion and Analysis
June 30, 2014

Financial Analysis (continued)

Cash Receipts and Cash Disbursements - Total Governmental Activities

Condensed Financial Information:

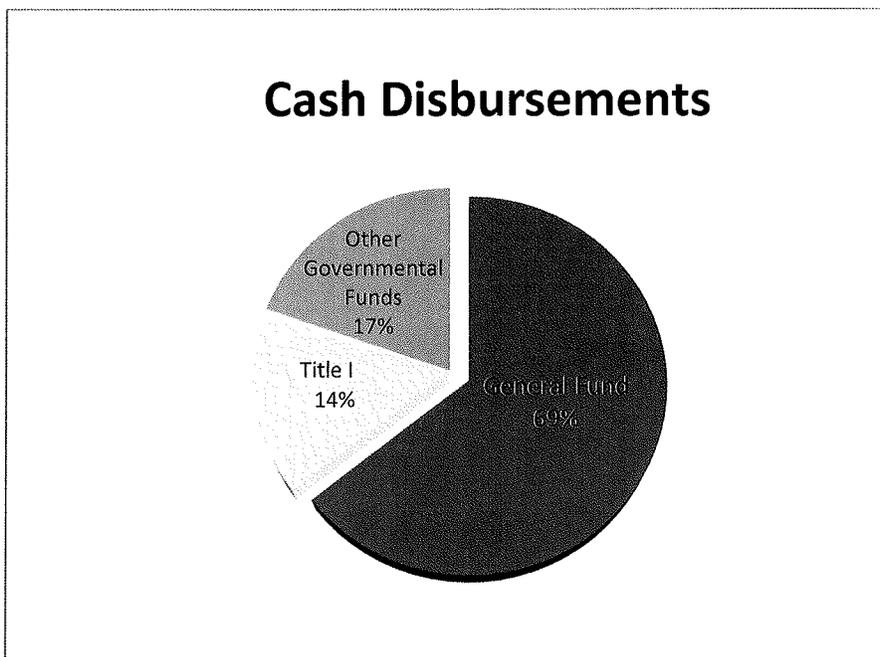
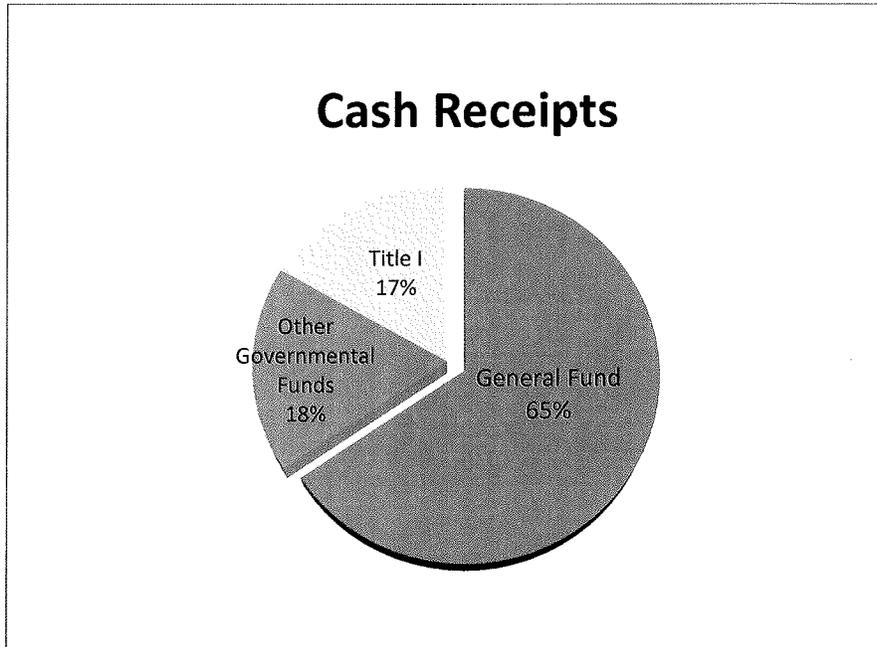
	Year Ended June 30		Change	
	2014	2013	In dollars	Percentage
Cash Receipts:				
Commonwealth appropriations	\$ 2,292,335,944	\$ 2,342,751,677	\$ (50,415,733)	(2.2)%
Intergovernmental – federal government	1,215,953,604	1,234,613,384	(18,659,780)	(1.5)%
Total cash receipts	3,508,289,548	3,577,365,061	(69,075,513)	
Cash Disbursements:				
Current:				
General government	2,114,835	1,705,649	409,186	24.0%
Vocational and Technical Education	89,338,682	89,497,044	(158,362)	(0.2)%
Community Schools	1,934,528,070	2,256,195,444	(321,667,374)	(14.3)%
Integrated Educative Services for the Disabled	554,988,189	476,393,857	78,594,332	16.5%
Food Services for Students	322,034,404	315,117,412	6,916,992	2.2%
Schools' Quality of Life and Drug Free	8,628,584	9,846,381	(1,217,797)	(12.4)%
Integrated Services to Communities	57,053	55,282	1,771	3.2%
Adult Education	14,496,005	23,886,114	(9,390,109)	(39.3)%
Technological Institutes	19,157,143	15,107,136	4,050,007	26.8%
Auxiliary Services and Technical Assistance	45,538,609	51,676,819	(6,138,210)	(11.9)%
Institute for Administrative Training and Counseling to Schools	135,511	252,052	(116,541)	(46.2)%
Public Schools Maintenance	16,398,917	18,092,846	(1,693,929)	(9.4)%
Printing Services	819,599	871,010	(51,411)	(5.9)%
Indirect Costs	18,632,186	25,198,756	(6,566,570)	(26.1)%
Joint Resolutions	108,160,675	177,163,658	(69,002,983)	(38.9)%
Special Accounts	190,788,872	161,925,934	28,862,938	17.8%
Total cash disbursements	3,325,817,335	3,622,985,394	(297,168,059)	(8.2)%
Excess for the year	\$ 182,472,214	\$ (45,620,333)	\$ 228,092,547	(500.0)%

Puerto Rico Department of Education
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Management's Discussion and Analysis
June 30, 2014

Financial Analysis (continued)

The total cash receipts and cash disbursements of the Governmental Activities include the individual activities of the Commonwealth Appropriations (General Fund) and the Federal Government Grants (Title- I and Other Governmental Funds). The distribution of the cash receipts and cash disbursements per each individual activity is presented in the following charts:



Puerto Rico Department of Education
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Management's Discussion and Analysis
June 30, 2014

Financial Analysis (continued)

For the year ended June 30, 2014, PRDE's Statement of Cash Receipts and Disbursements reflects an excess of receipts over disbursements of \$182.5 million. The main reason for the overall excess of cash receipts over cash disbursements is the recovery of funds resulting from prior years "deficiencies" or excess of cash disbursements over cash receipts due to the fact that PRDE presents its statements using the cash-basis of accounting and as a result, it is limited to only reporting cash receipts and cash disbursements when the transactions meet the timing requirements. During fiscal years ("FY") 2012 and 2013 PRDE presented deficiencies of \$125.8 million and \$45.6 million, respectively. The variations for the year ended June 30, 2014 when compared to the same period in 2013 are described ahead:

General Government increased approximately \$409 thousand or 24% from last year mainly due to the relocation of several offices within the agency as part of a restructuring plan of the Secretary. The office of "Remedio Provisional" which was previously located under Associate Secretariat of Special Education as well as the "Agencia Estatal Aprobadora de los Institutos Tecnológicos" which was previously located under the Vocational and Occupational Secretariat were moved under the Office of the Secretary of Education. Therefore, their payroll and payroll related expenses are now recorded under this function. This increase was of approximately \$160 thousand or 40% of the total increase. Other increases were related to the purchase of materials and equipment for the accommodation of these new offices, and the contracting of professional and consulting services. These services were from personnel in charge of reviewing the organizational structure of the agency and for the preparation of new regulations and procedure manuals for the Under Secretariat of Administration.

Community Schools decreased approximately \$322 million or 14.3% when compared with last year disbursements, mainly due to a \$334 million decrease on Title I Part A Program disbursements. Please refer below for the explanation on the variances for cash receipts and cash disbursements for the Title I Fund under the section for Governmental Funds Results.

Integrated Educative Services for the Disabled increased \$78.6 million or 16.5% from last year due, among other things, to the payment for student transportation which previously was mainly paid through joint resolutions. For FY2014, the disbursements for this type of expense were increased within this function by approximately \$84 million. Other increases were on professional services paid during 2014 of \$3 million, given that the Associate Secretariat of Special Education paid for the professional development of PRDE personnel in order to be able to provide services to the special education students internally, instead of outsourcing these services. There was also a reduction of approximately \$18 million within this function given to the fact that EDJobs Program closed during the year.

Adult Education decreased \$9.4 million or 39.3% due mainly to a reduction in the contracting of personal and professional services caused by a change in contracting process that was implemented by the state at the beginning of FY 2014. There was also a reduction in disbursements within this function due to the closing of the Even Start Program.

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Management's Discussion and Analysis
June 30, 2014

Financial Analysis (continued)

Technological Institutes increased \$4 million or 26.8% due to the payment of prior year debts. During FY 2014 the Technological Institutes were paying their current expenses plus some of prior years.

Institute for Administrative Training and Counseling to Schools decreased \$116 thousand or 46.2% from last year due to a decrease in payroll and payroll related expenses related to the retirement of personnel during FY 2013. These expenses decreased by \$103 thousand, which represent 89% of the total reduction in disbursements within this function.

Indirect Cost decreased \$6.6 million or 26.1% when compared to last year mainly due to the following: computer licenses that during FY 2013 were paid with funds within this function, were purchased during FY 2014 through funds from other functions, representing a reduction of approximately \$4 million; during FY 2013 maintenance to the information system were paid which resulted in a reduction in that type of disbursement of approximately \$2.1 million; maintenance expenses were reduced during FY 2014 by \$1.5 million since those were paid through a special account during FY 2014; during FY 2013 funds within this function, \$1.7 million approximately, were used to pay for prior year debts of the School Food Authority, this year this was not repeated. Decrease was partially offset by increases on disbursements related to donations to students with academic excellence and for the payment of salary related debts, representing an increase of \$1 million and \$2.7 million respectively.

Joint resolutions decreased by \$69 million or 38.9% when compared with FY 2013. As explained above, payment for student transportation which was paid on prior year through this function, during FY 2014 were mostly covered with funds within the function for *Integrated Educative Services for the Disabled*, therefore resulting in decreased on cash disbursements of approximately \$76 million. Other decreases on disbursements within this function were due to disbursements on FY 2013 that were not repeated during FY 2014 such as \$10.7 million for collective labor agreement (\$600 for each employee) and a reduction on disbursement for information system's professional services within this function of \$4 million is shown because during FY 2014, as opposed to FY 2013, these disbursements were paid from funds within the functions of *Indirect Cost* and *General Government*. Increases on disbursements, on the other hand, of approximately \$22.8 million were observed within this function due to the following: \$4 million were disbursed for the payment of prior year debts for the School Food Authority and \$18 million were disbursed for the liquidations of employees retired or resigned on or before FY 2014.

Special Accounts increased \$28.9 million or 17.8% when compared with FY 2013 data because of Act 43 of June 30, 2013 which was approved to create the "Fondo de Apoyo Presupuestario". This act requested from special accounts of the PRDE to contribute approximately \$24.3 million of its funds. The balance remaining on the special accounts of the PRDE were used, among other things, on the creation of scholarships and financial aids for students attending the Technological Institutes.

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Management's Discussion and Analysis
June 30, 2014

Financial Analysis (continued)

Governmental Funds Results

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

General Fund

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

Cash Receipts and Cash Disbursements – General Fund

Condensed Financial Information:

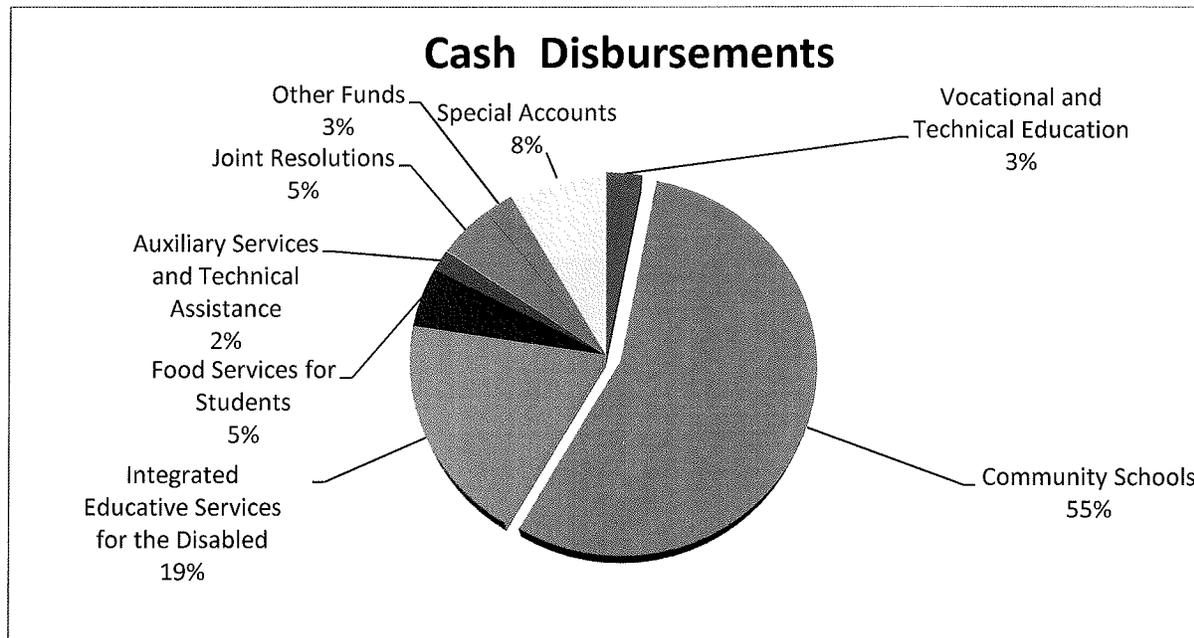
	General Fund		Change	
	2014	2013	In dollars	Percentage
Cash Receipts:				
Commonwealth appropriations	\$ 2,292,335,944	2,342,751,677	\$ (50,415,733)	(2.2)%
Cash Disbursements:				
Total cash disbursements	<u>2,294,726,987</u>	<u>2,301,717,619</u>	<u>(6,990,632)</u>	(0.3)%
(Deficiency) excess	<u>\$ (2,391,043)</u>	<u>\$ 41,034,058</u>	<u>\$ (43,425,101)</u>	(105.8)%

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Management's Discussion and Analysis
June 30, 2014

Financial Analysis (continued)

The main functions over which cash disbursements were made include Community Schools and Integrated Educative Services for the Disabled; however the following chart presents a complete analysis of total cash disbursements from the General Fund per each function:



Title I Fund

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

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Management's Discussion and Analysis
June 30, 2014

Financial Analysis (continued)

Cash Receipts and Cash Disbursements – Title I Fund

Condensed Financial Information:

	Title I		Change	
	2014	2013	In dollars	Percentage
Cash Receipts:				
Intergovernmental – federal government	\$ 590,380,312	\$ 635,744,270	\$ (45,363,958)	(7.1)%
Cash Disbursements:				
Total cash disbursements	450,341,783	784,229,974	(333,888,191)	(42.6)%
Excess (deficiency)	<u>\$ 140,038,529</u>	<u>\$ (148,485,704)</u>	<u>\$ 288,524,233</u>	(194.3)%

The decrease in cash disbursements of the Title I Fund responds mainly to the closing of the operations of the Supplemental Educational Services (SES) project during FY 2014. Expenditures for SES during FY 2013 amounted to approximately \$184 million.

PRDE received the approval to the Flexibility Plan on October 2013 and, as part of the approved waivers, PRDE was given the opportunity to choose not to implement SES. Instead, PRDE developed a strategy named “Programa de Estrategias Educativas Complementarias” (PEEC) which started operations on January 2014. FY 2014 disbursement for PEEC amounted to approximately \$17 million, resulting in a decrease of approximately \$167.5 million, when compared with SES disbursements for FY 2013.

Another significant factor for the decrease on disbursement for the Title I funds is due to the fact that, during the FY 2013, PRDE operated with several Title I federal grants corresponding to FYs 2010, 2011, 2012, 2013 and also funds received from the American Recovery and Reinvestment Act (ARRA) of 2009. During FY 2014, operating under normal conditions, only two grants were open.

There was also a reduction of approximately \$20 million in funds received under Title I which contributed to the decrease in cash disbursements for the year. In order for PRDE to consistently fulfill all Title I School's needs, it was necessary to reduce the funds assigned to the discretionary Title I set-asides. As a result to the reduction of funds available for these set aside, the following was observed:

- A decrease in work plans related to Professional Development, which resulted in a decrease of approximately \$48.1 million in expenditures.
- A decrease in work plans funded by District-wide funds, which resulted in a decrease of approximately \$25.4 million in expenditures.

Puerto Rico Department of Education
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Management's Discussion and Analysis
June 30, 2014

Financial Analysis (continued)

- A decrease in work plans related to Teacher Certification, which resulted in a decrease of approximately \$17.9 million in expenditures.
- Administrative expenditures decreased by approximately \$14.8 million mainly due to a reduction in professional service expenses.

Contacting the PRDE's Financial Management

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

Puerto Rico Department of Education
(An Executive Agency of the Commonwealth of Puerto Rico)

Statement of Cash Receipts and Cash Disbursements
Year Ended June 30, 2014

	<u>General Fund</u>	<u>Title I</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
Cash Receipts:						
Commonwealth Appropriations	\$ 2,292,335,944	\$ -	\$ -	\$ 2,292,335,944	\$ -	\$ 2,292,335,944
Intergovernmental – Federal Government	-	590,380,312	625,573,292	1,215,953,604	-	1,215,953,604
Total cash receipts	<u>2,292,335,944</u>	<u>590,380,312</u>	<u>625,573,292</u>	<u>3,508,289,548</u>	<u>-</u>	<u>3,508,289,548</u>
Cash Disbursements:						
Current:						
General Government	2,114,835	-	-	2,114,835	-	2,114,835
Vocational and Technical Education	69,935,985	-	19,402,697	89,338,682	-	89,338,682
Community Schools	1,270,728,282	450,341,783	213,458,005	1,934,528,070	-	1,934,528,070
Integrated Educative Services for the Disabled	436,736,717	-	118,251,472	554,988,189	-	554,988,189
Food Services for Students	117,285,793	-	204,748,611	322,034,404	-	322,034,404
Schools' Quality of Life and Drug Free	8,628,584	-	-	8,628,584	-	8,628,584
Integrated Services to Communities	57,053	-	-	57,053	-	57,053
Adult Education	2,867,034	-	11,628,971	14,496,005	-	14,496,005
Technological Institutes	6,631,493	-	12,525,650	19,157,143	-	19,157,143
Auxiliary Services and Technical Assistance	44,805,450	-	733,159	45,538,609	-	45,538,609
Institute for Administrative Training and Counseling to Schools	135,511	-	-	135,511	-	135,511
Public Schools Maintenance	16,398,917	-	-	16,398,917	-	16,398,917
Printing Services	819,599	-	-	819,599	-	819,599
Indirect Costs	18,632,186	-	-	18,632,186	-	18,632,186
Joint Resolutions	108,160,675	-	-	108,160,675	-	108,160,675
Special Accounts	190,788,872	-	-	190,788,872	-	190,788,872
Total cash disbursements	<u>2,294,726,987</u>	<u>450,341,783</u>	<u>580,748,565</u>	<u>3,325,817,335</u>	<u>-</u>	<u>3,325,817,335</u>
Excess (deficiency)	<u>\$ (2,391,042)</u>	<u>\$ 140,038,529</u>	<u>\$ 44,824,727</u>	<u>\$ 182,472,214</u>	<u>\$ -</u>	<u>\$ 182,472,214</u>

Puerto Rico Department of Education

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Notes to Statement of Cash Receipts and Cash Disbursements

June 30, 2014

(1) **Reporting entity:**

The Department of Education of the Commonwealth of Puerto Rico (“PRDE”) was organized under Article V, Section 6 of the Constitution of the Commonwealth of Puerto Rico (the Commonwealth). PRDE is presented as part of the Commonwealth’s basic financial statements. PRDE is responsible for the planning and administration of all public elementary, secondary and some post-secondary education throughout Puerto Rico. The Secretary of Education is appointed by the Governor of the Commonwealth of Puerto Rico.

On July 15, 1999, the Legislature of the Commonwealth of Puerto Rico enacted Law Number 149, “*Ley Orgánica del Departamento de Educación Pública de Puerto Rico.*” This law establishes Puerto Rico’s public policy in the educative area and creates a public education system based on community schools with academic, fiscal and administrative autonomy. The community schools autonomy allows them to design, develop and engage in income generating activities. Such revenues and the related expenditures are accounted for and administered directly by each community school. PRDE has no accounting control of such transactions but management believes that such revenues and related expenditures are not significant in regard to the Statement of Cash Receipts and 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 PRDE has oversight responsibilities over it. However, its operations are subject to a separate financial or single audit, as applicable or required.

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

(2) **Basis of presentation and summary of significant accounting policies:**

The accompanying statement of cash receipts and cash disbursements is prepared using the cash basis of accounting.

(a) **Basis of accounting -**

The accompanying statement of cash receipts and cash disbursements is prepared using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves the recognition of revenue and expenses when cash is received and disbursed, respectively.

This cash basis of accounting differs from GAAP primarily because revenues (cash receipts) are recognized when received in cash rather than when earned and susceptible to accrual, and expenditures or expenses (cash disbursements) are recognized when paid rather than when incurred or subject to accrual.

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Notes to Statement of Cash Receipts and Cash Disbursements
June 30, 2014

(b) **Fund financial statement** -

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 PRDE that are reported in the accompanying statement of cash receipts and cash disbursements have been classified into governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements, with non major funds being combined into a single column. The following are classified as major governmental funds:

- **General Fund** — This is the main operating fund of 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** -

PRDE's budget is integrated within the general budget of the Commonwealth. The budget is adopted in accordance with a statutory basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Cash receipts – budgetary are generally recognized when cash is received for federal financial assistance programs or other grants that are received from sources other than the Commonwealth. PRDE is granted the right to draw against available funds of the Secretary of the Treasury as its mean to incur in expenditures under the General Fund. Therefore, the budget approved by the Commonwealth represents the spending limit allowed to PRDE as it relates to funds appropriated by the Commonwealth.

Cash disbursements – budgetary are generally recorded when the related payment, purchase order or contract is recorded as an encumbrance. For payroll and related payments, the cash disbursement is recorded on the effective date of the payroll being processed.

Encumbrances lapse the year following the end of the fiscal year when the encumbrance was established, as established by Act No. 123 of August 17, 2001, which amended the then existing appropriations and encumbrances lapsing provisions of Act No. 230 of July 23, 1974. Unencumbered appropriations lapse at year-end.

Under the statutory basis of accounting, 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.

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June 30, 2014

(d) **Compensated absences** -

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 number 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.

(e) **Risk management** -

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

(3) **Stewardship, compliance and accountability:**

The budget of 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 rate proposal:**

Generally, each year PRDE submits an indirect cost rate proposal for approval by the United States Department of Education ("USDE"), the Audit Cognizant Agency. On August 13, 2014, USDE entered into an Indirect Cost Rate Agreement No. 2014-017(A) with PRDE which replaced the previous agreement No. 2014-017. This agreement includes final rates which became effective July 1, 2011 until June 30, 2012 and also includes provisional rates, covering the period under audit, beginning on July 1, 2012 until June 30, 2014. The rates within the Agreement applicable for the year ended June 30, 2014 were 5.2% for school lunch and 3.3% for all other programs, based on salaries and wages, including fringe benefits. These rates are used to allocate qualified types of expenditures from state funds to the federal financial assistance programs.

(5) **Retirement Plan:**

(a) **Teachers Retirement System (TRS)** -

The TRS is a single-employer defined-benefit plan sponsored by the Commonwealth. All active participants as of July 31, 2014 will continue to participate of this pension plan. These participants 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.

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The Plan members of the TRS hired on or before July 31, 2014 are eligible for the benefits described below:

This 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 36 months of compensation recognized by TRS. The annuity for which a plan member is eligible is limited to a minimum of \$400 per month and a maximum of 75% of the average compensation.

The Commonwealth, with the assistance of the TRS's external consulting actuaries, concluded that annual increases in the employers' contribution rate were required to assist in funding pension payments. As a result of such determination, the Commonwealth approved Act No. 114 on July 5, 2011 (Act No. 114-2011), which provides for an increase in employers' contributions to the System of 1% of covered payroll in each of the five fiscal years following enactment and by 1.25% of covered payroll in each of the following five fiscal years thereafter.

Funding Policy - Participating employees were required to contribute 9% of their compensation to the System, while the employers were required to contribute 11.5% of the applicable payroll for the year ended June 30, 2014, according to Act No. 114-2011. Commonwealth contributions should ultimately cover any deficiency between the participating employees' contributions and the System's pension benefit obligations and administrative costs. Contribution rates are established by law and are not actuarially determined.

On December 24, 2013, the Governor of the Commonwealth of Puerto Rico signed into law Act 160-2013 ("Act 160"), as new legislation for the TRS. The goal underlying Act No. 160-2013 is for the System to have the ability to make benefit payments when due.

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

(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.

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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 25 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, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 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, as defined, or if they have attained 55 years of age will receive up to a maximum of 75% of the average compensation, as defined.

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.

The contribution requirements for both employees and employers are established by law and are not actuarially determined. Employees are required to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Department is required by the same statute to contribute 9.275% of its employees' gross salaries for the year ended June 30, 2011. Commencing on July 1, 2011, the Department is required to contribute 10.275%, with annual increases of 1% to contributions from July 1, 2012 to June 30, 2016.

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

System 2000 is a hybrid-defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to individual accounts established under the Program. Participants have three options to invest their contributions to the Program: (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. Investment income is credited to the participant's account semiannually.

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The Department is required by Act No. 305 to contribute 10.275% of the participant's gross salary, with annual increases of 1% to contributions from July 1, 2012 to June 30, 2016. ERS will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan.

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump sum to any beneficiaries. Participants have the option of a lump-sum payment or purchase of an annuity contract in case of permanent disability.

On April 4, 2013, Act No. 3, an amendment to Act 447 of May 1, 1951 was issued. This law became effective July 1, 2013 to implement a comprehensive reform plan that would address the crisis in the System.

This law, in addition to honoring the legislated increase in employer contributions, states that the path to fiscal reconstruction requires closing the System's actuarial deficit and insufficient funds for benefits payments through several measures that include, among others:

1. Freezing the accumulation of active public employee benefits under the defined benefit plans that exist under Act 447 and Act 1, by eliminating the acquisition of new benefits under the current System while respecting all accumulation gained by such public employees up to the present (i.e., June 30, 2013);
2. Increasing the retirement age, which will be implemented in stages for public employees who are now close to meeting the required retirement age under existing laws:
 - a. Act No. 447 participants will be gradually increased the retirement age from 58 to 61.
 - b. Current System 2000 participant's age increased gradually from 60 to 65.
 - c. New employees retirement age is 67 years, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
3. Moving active public employees currently under Act 447 and Act 1 to a defined contribution plan similar to System 2000;
4. Increasing the employees' contribution to the System from 8.275% to 10%;
5. Eliminating the "merit annuity" available to participants who joined the System prior to April 1, 1990;
6. Modifying the benefits granted by the Special Laws, using all savings in employer contributions to provide more funds to the System. Some of the changes are:
 - a. Reducing the Christmas bonus payable to current retirees from \$600 to \$200 and is eliminated for future retirees.
 - b. Eliminating summer bonus.
 - c. Establishing a \$2,000 annual contribution paid by the employer for each one retiree.
7. Increasing the minimum pension for current retirees from \$400 to \$500 per month;

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8. Changing the balloon payment that is made to public employees who retire under System 2000 to an annuity;
9. Eliminating disability benefits and substituted for a mandatory disability insurance policy;
10. Survivor benefits will be modified.

PRDE's contractually required contributions for the years ended June 30, 2014, 2013 and 2012 amounted to \$127,708,031, \$141,578,491, and \$141,244,303, respectively.

Additional information on the ERS is provided in its financial statements for the years ended June 30, 2014 and 2013, 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 is a grantee in various 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. Entitlement to the resources is generally based on compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditures of the resources for eligible purposes. Based on this, the Department is required to comply with the audit requirements established by the Office of Management and Budget Circular A-133, Audits of State and Local Governments.

(b) Special conditions -

On a communication dated June 24, 2013, USDE issued a letter imposing special conditions on all grants awarded to the PRDE for FY 2013, as well as on all grants previously awarded by USDE to PRDE that are still available for obligation or liquidation on the date of the special conditions. This Special Condition Letter requires PRDE to submit status reports on a series of items connected to the 2007 Memorandum of Agreement ("MOA"). PRDE is specially required to (i) enhance and develop a system to capture information on Personal Service Contracts (PSC) and professional services contract (ProsSC) in order to better account for and reconcile federal expenditures, (ii) compliance with Grants Management System (iii) compliance with Regulations Enforcement, (iv) continued reporting on implementation of Activities under the MOA and 2007 Agreement, (v) internal audit office and audit oversight committee reports on in-progress audits and investigations and summary reports on a quarterly basis. During FY 2014, all required reports were submitted by PRDE. These actions are currently being handled during FY 2015.

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(c) Flexibility plan –

The Federal Elementary and Secondary Education Act of 1965 (ESEA), as amended by the No Child Left Behind Act of 2001 (NCLB) requires all schools to reach 100% of academic proficiency by 2014. Even though this goal is difficult to meet for the vast majority of States, there is little chance that Act ESEA be amended by the Congress of the United States by 2014. In response, in 2011 the President Obama administration launched an invitation to States and territories to apply for waivers to the ESEA law allowing them to reformulate their school reform strategies. The states should then present a rigorous reform plan governed by four main principles:

1. Postsecondary and professional expectations for all students
2. Differentiated recognition, accountability and support system
3. Support to the instruction and effective leadership
4. Reducing duplicity and unnecessary load

The approval of the Flexibility Plan for Puerto Rico was announced on October 1, 2013. According to this flexibility, Puerto Rico was called to implement greater rigor and comprehensive planning in the evaluation of public schools and the academic achievement of the students.

(d) Prior audit resolutions -

Total questioned costs included in the single audit reports for fiscal years ended June 30, 2013, 2012, 2011, 2010 and 2007 amounted to \$2,014,608, \$3,790,726, \$1,039,504, \$1,357,250 and \$12,704,461, respectively. The resolution of such questioned amounts is being closely worked with USDE through various determinations.

Determination	Date	Questioned Cost	Period
Program Determination Letter	Sept 25, 2013	\$616,918	July 1, 2006 - June 30, 2007
Program Determination Letter	Sept 30, 2013	\$2,606,133	July 1, 2009 – June 30, 2010 July 1 2010 – June 30, 2011 July 1, 2011 – June 30, 2012

(e) Current single audit -

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, 2014, 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 \$750,509.

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June 30, 2014

(f) 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 or institutions. The Controller and the OIG have issued several reports on audits over the operations and management of the PRDE, some of which involve federal programs. PRDE is currently being subjected to certain proceedings by the Puerto Rico Department of Justice, the USDE and the Office of the Controller of Puerto Rico, because of audit findings from previous years.

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

(g) Other litigation matters -

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.

(h) Operational leases-

The Department is obligated under certain leases accounted for as 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. The Office of Management and Budget, along with PR Treasury Department were responsible of making these payments to the Authority on behalf of the Department. During the fiscal year ended June 30, 2014, these payments for lease agreements amounted to approximately \$250.4 million. Additional rent paid by the Department for the leasing of its central offices and other warehouses were approximately \$13.7 million. Information of the future minimum rental payments required under operating leases was not available.

(7) Subsequent events:

USDE issued additional Program Determination Letters (PDL) on September 12, 2014, September 30, 2014, November 12, 2014, December 15, 2014 and January 26, 2015. The PDL of September 12, 2014 requested a repayment of \$7,303, which was issued on November 2014. PRDE continues gathering additional evidence to support the questioned amount from the findings established on the September 2013 PDL's.

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Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture:			
Child Nutrition Cluster:			
Non-cash assistance (commodities):			
National School Lunch Program	10.555		\$ 13,485,746
Cash assistance:			
National School Lunch Program	10.555		162,300,012
Summer Food Service Program for Children	10.559		12,179,216
Child and Adult Care Food Program	10.558		27,062,822
State Administrative Expenses for Child Nutrition	10.560		2,666,719
Fresh and Fruit Vegetables Program	10.582		539,842
Total U.S. Department of Agriculture			<u>218,234,357</u>
National Endowment of the Humanities:			
State Library Program	45.310		<u>1,389,810</u>
U.S. Department of Education:			
Adult Education - State Grant Program	84.002		10,239,161
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grants	84.007		24,920
Federal Work - Study Program	84.033		13,170
Federal Pell Grant Program	84.063		12,487,560
Title I Grants to Local Educational Agencies	84.010		450,341,783
Title I Program for Neglected and Delinquent Children	84.013		385,811
Special Education Cluster:			
Special Education - Grants to State	84.027		114,975,242
Special Education - Preschool Grants	84.173		3,120,405
Impact Aid	84.041		531,281
Career and Technical Education - Basic Grants to States	84.048		19,016,886
Education for Homeless Children and Youth	84.196		968,152
Twenty - First Century Community Learning Centers	84.287		62,730,215

(continued)

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Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Dissabilities	84.326		155,825
English Language Acquisition Grants	84.365		5,383,503
Mathematics and Science Partnership	84.366		5,518,094
Improving Teacher Quality State Grants	84.367		74,837,563
Grants for State Assessments and Related Activities	84.369		4,247,671
Statewide Longitudinal Data Systems	84.372		201,878
School Improvement Grants Cluster:			
School Improvement Grants	84.377		30,073,332
School Improvement Grants, Recovery Act	84.388		29,443,533
National Assessment of Educational Progress (NAEP) Secondary Analysis	84.902		93,170
Total U.S. Department of Education			824,789,155
U.S. Department of Health and Human Services:			
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938		162,772
Total Expenditures of Federal Awards			\$ 1,044,576,094

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Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

(1) Basis of presentation:

The accompanying schedule of expenditures of federal awards (“the Schedule”) includes the federal grant activity of PRDE under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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 Cash Disbursement (“the Statement”).

Pass-through entity identifying numbers are presented when available.

(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 have similar compliance requirements. The Schedule includes the following clusters:

<u>Clusters</u>	<u>Federal Program</u>	<u>Federal CFDA Number</u>
Child Nutrition	National School Lunch Program	10.555
	Summer Food Service Program for Children	10.559
Student Financial Assistance Programs	Federal Supplemental Educational Opportunity Grants	84.007
	Federal Work - Study Program	84.033
	Federal Pell Grant Program	84.063
Special Education	Special Education - Grants to State	84.027
	Special Education - Preschool Grants	84.173
School Improvement Grants	School Improvement Grants	84.377
	School Improvement Grants, Recovery Act	84.388

(3) Program costs:

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the state's portion, are more than the amounts shown.

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Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

(4) Non-cash assistance – commodities:

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

(5) 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. The following federal program amounts were expended by PRDE in its schoolwide program:

<u>CFDA No.</u>	<u>Name of Federal Program</u>	<u>Expenditures in the Schoolwide Fund</u>
84.010	Title I Grants to Local Educational Agencies	\$ 261,450,780
84.367	Improving Teacher Quality State Grants	47,658,852
N/A	Community School Program - State Funds	<u>1,094,758,355</u>
		<u>\$ 1,403,867,987</u>

(6) 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.

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Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

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 PRDE in its consolidated fund:

<u>CFDA No.</u>	<u>Name of Federal Program</u>	<u>Expenditures in the Consolidated Fund</u>
84.010	Title I Grants to Local Educational Agencies	\$ 32,740,974
84.367	Improving Teacher Quality State Grants	6,895,471
84.287	Twenty-First Century Community Learning Centers	761,534
84.365	English Language Acquisition Grants	218,301
84.013	Title I Program for Neglected and Delinquent Children	6,068
		<u>\$ 40,622,348</u>

(7) Indirect cost rate:

The amount expended includes \$20.4 million claimed as an indirect cost recovery using an approved indirect cost rate of percent.

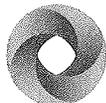
(8) Amounts awarded to sub-recipients:

Of the federal expenditures presented in the Schedule, PRDE provided federal awards to sub-recipients as follows:

<u>CFDA No.</u>	<u>Name of Federal Program</u>	<u>Expenditures in the Consolidated Fund</u>
10.555/10.559	Child Nutrition Cluster	\$ 6,683,910
10.582	Fresh Fruit and Vegetable Program	34,726
84.002	Adult Education Program	1,772,292
84.287	21st Century Community Learning Centers	60,274,529
		<u>\$ 68,765,457</u>

(9) Recovery act programs:

Expenditures for programs named as "Recovery Act" were funded by the American Recovery and Reinvestment Act (ARRA) of 2009.



**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 Prof. Rafael Román Meléndez
Secretary
Department of Education of the
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San Juan, Puerto Rico

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We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Cash Receipts and Cash Disbursements (the "Statement") of the Puerto Rico Department of Education ("PRDE" or "the Entity"), for the year ended June 30, 2014, and the related notes to the financial statement, which collectively comprise the Entity's basic financial statement, and have issued our report thereon dated March 30, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Entity's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion of the effectiveness of the Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control.

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

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 that 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 2014-01 and 2014-02 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2014-03 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Entity's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as finding 2014-01.

We noted certain matters that we reported to management of PRDE in separate letter dated March 30, 2015.

PRDE's Response to Findings

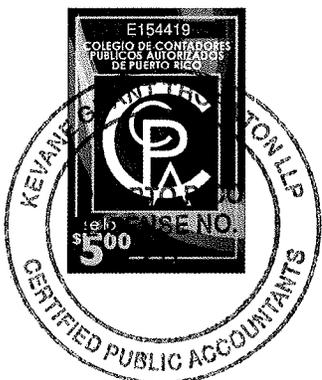
PRDE's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. PRDE's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Juan, Puerto Rico,
March 30, 2015.

Kevane Grant Thornton LLP





**Independent Auditors' Report on Compliance for
Each Major Program and on Internal Control Over
Compliance Required by OMB Circular A-133**

Honorable Prof. Rafael Román Meléndez
Secretary
Department of Education of the
Commonwealth of Puerto Rico
San Juan, Puerto Rico

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Report on Compliance for Each Major Federal Program

We have audited the **Puerto Rico Department of Education's** ("PRDE" or "the Entity") 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 each of the Entity's major federal programs for the year ended June 30, 2014. The Entity's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Entity's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Entity's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on Major Federal Programs

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

Finding #	Compliance Requirement	CFDA#	Program (or Cluster) Name
2014-01	Allowable Costs/Cost Principles	84.010	Title I Grants to Local Educational Agencies
		84.027	Special Education Cluster
		84.048	Career and Technical Education - Basic Grant to States
		84.287	Twenty-First Century Community Learning Centers
		84.367	Improving Teacher Quality State Grants
2014-04	Allowable Costs/Costs Principles	84.048	Career and Technical Education - Basic Grant to States
2014-05	Cash Management	84.048	Career and Technical Education - Basic Grant to States
		84.287	Twenty-First Century Community Learning Centers
		84.377/84.388	School Improvement Grants Cluster
2014-07	Eligibility	84.027/84.173	Special Education Cluster
2014-08	Equipment and Real Property Management	10.560	State Administrative Expenses for Child Nutrition
		45.310	State Library Program
		84.002	Adult Education - Basic Grants to States
		84.010	Title I Grants to Local Educational Agencies
		84.048	Career and Technical Education - Basic Grant to States
84.377/84.388	School Improvement Grants Cluster		
2014-09	Equipment and Real Property Management	10.560	State Administrative Expenses for Child Nutrition
		45.310	State Library Program
		84.002	Adult Education - Basic Grants to States
		84.010	Title I Grants to Local Educational Agencies
		84.048	Career and Technical Education - Basic Grant to States
84.377/84.388	School Improvement Grants Cluster		
2014-10	Matching, Level of Effort, Earmarking	84.287	Twenty-First Century Community Learning Centers
2014-11	Reporting	45.310	State Library Program
		84.007/84.033	
2014-12	Reporting	/ 84.063	Student Financial Assistance Cluster
2014-13	Reporting	84.002	Adult Education - Basic Grants to States

Finding #	Compliance Requirement	CFDA#	Program (or Cluster) Name
2014-14	Reporting	84.287	Twenty-First Century Community Learning Centers
2014-15	Reporting	84.007/84.033/ 84.063	Student Financial Assistance Cluster
2014-16	Sub-recipient Monitoring	84.002	Adult Education - Basic Grants to States
2014-18	Special Tests and Provisions	84.007/84.033/ 84.063	Student Financial Assistance Cluster
2014-19	Special Tests and Provisions	84.007/84.033/ 84.063	Student Financial Assistance Cluster
2014-20	Special Tests and Provisions	84.010	Title I Grants to Local Educational Agencies
2014-21	Special Tests and Provisions	84.010	Title I Grants to Local Educational Agencies
2014-22	Special Tests and Provisions	84.010 84.367	Title I Grants to Local Educational Agencies Improving Teacher Quality State Grants

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

Qualified Opinion on Major Federal Programs

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, PRDE complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as findings 2014-01 through 2014-03. Our opinion on each major federal program is not modified with respect to these matters.

PRDE's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. PRDE's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of PRDE is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Entity's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 2014-01, 2014-02, 2014-04, 2014-06 through 2014-10, and 2014-18 through 2014-21 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 2014-03, 2014-05, 2014-11 through 2014-17, and 2014-22 to be significant deficiencies.

PRDE's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. PRDE's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

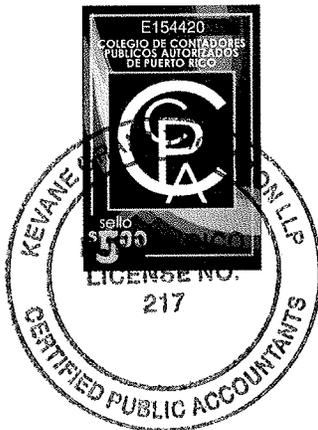
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the Statement of Cash Receipts and Disbursements (“the Statement”) of PRDE for the year ended June 30, 2014, and have issued our report thereon dated March 30, 2015, which contained an unmodified opinion on the Statement. Our audit was conducted for the purpose of forming opinion on the Statement. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the Statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Statement. The information has been subjected to the auditing procedures applied in the audit of the Statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Statement, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal award is fairly stated in all material respects in relation to the Statement as a whole.

San Juan, Puerto Rico,
March 30, 2015.

Kevane Grant Thornton LLP



Puerto Rico Department of Education
(An Executive Agency of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section I - Summary of Auditor's Results

Financial Statements -

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? X yes none reported

Noncompliance material to financial statements noted? X yes no

Federal Awards -

Internal control over major programs:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? X yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? X yes no

Identification of Major Programs -

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Child Nutrition Cluster	
National School Lunch Program	10.555
Summer Food Service Program for Children	10.559
State Administrative Expenses for Child Nutrition	10.560
State Library Program	45.310
Adult Education - Basic Grants to States	84.002
Student Financial Assistance Cluster	
Federal Supplemental Educational Opportunity Grants	84.007
Federal Work-Study Program	84.033
Federal Pell Grant Program	84.063
Title I Grants to Local Educational Agencies	84.010

Puerto Rico Department of Education
(An Executive Agency of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

<u>Name of Federal Program</u> (cont.)	<u>CFDA Number</u>
Special Education Cluster	
Special Education – Grants to State	84.027
Special Education – Preschool Grants	84.173
Career and Technical Education -- Basic Grants to States	84.048
Education for Homeless Children and Youth	84.196
Twenty-First Century Community Learning Centers	84.287
Improving Teacher Quality State Grants	84.367
Grants for State Assessments and Related Activities	84.369
School Improvement Grants Cluster	
School Improvement Grants	84.377
School Improvement Grants, Recovery Act	84.388
Dollar threshold used to distinguish Between Type A and Type B programs:	 \$3,133,728
Auditee qualified as low-risk auditee?	 _____ yes <u> X </u> no

Section II- Financial Statements Findings

Financial statements findings comprise from Findings 2014-01 through 2014-03. Refer to section III – Federal Award Findings and Questioned Costs, for a detailed description of the findings.

Puerto Rico Department of Education
(An Executive Agency of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section III- Federal Award Findings and Questioned Costs

Finding Number: 2014-01

Federal Programs: CFDA No. 84.010; Title I Grants to Local Educational Agencies
 CFDA No. 84.027; Special Education Cluster
 CFDA No. 84.048; Career and Technical Education - Basic Grants to States
 CFDA No. 84.287; Twenty-First Century Community Learning Centers
 CFDA No. 84.367; Improving Teacher Quality State Grants

Various federal financial assistance programs

Category:

Financial Statement Finding
 Internal control/Compliance

Compliance Requirement:

Allowable Costs/Cost Principles

Condition:

As part of our audit procedures, we obtained an account receivable listing as of June 30, 2014 amounting to \$7,365,868 which; after reconciliation and consideration of prior years' questioned costs, was reduced to \$5,734,779, distributed as follows:

<u>CFDA</u>	<u>Description</u>	<u>Receivable Balance</u>
<i>Major Programs:</i>		
84.027	Special Education - Grants to State	\$ 84,511
84.010	Title I Grants to Local Educational Agencies	16,829
84.048	Career and Technical Education	16,177
84.367	Improving Teacher Quality State Grants	13,991
84.287	Twenty-First Century Community	2,760
		<u>134,268</u>
<i>Others:</i>		
N/A	State Funds	3,653,237
N/A	Schoolwide	1,341,257
N/A	School Food Authority	566,590
N/A	Consolidated Funds	39,427
		<u>5,600,511</u>
Total receivable balance - 2014		<u>\$ 5,734,779</u>

Puerto Rico Department of Education

(An Executive Agency of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs Year Ended June 30, 2014

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

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:

- a. 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:
 - i. Permit preparation of reports required by this part and the statutes authorizing the grant, and
 - ii. 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.
- b. The financial management systems of the grantees and sub grantees must meet the following standards:
 - i. 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.
 - ii. 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.
 - iii. Internal control- establishes that effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property, and other assets.

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 costs, 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 of overpayments or erroneous charges.

Puerto Rico Department of Education
(An Executive Agency of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Cause:

This situation is mainly caused by the fact that the PRDE's regional offices are not timely notifying the Human Resources Department about personnel terminations. This situation has caused that payroll payments and others are disbursed to individuals that are no longer working/contracted by PRDE.

Effect:

The situation described above result in payments to contractors and/or employees who are not working or performing duties directly related to the federal programs for which they are being paid.

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

Questioned costs:

\$	84,511	CFDA 84.027	Special Education - Grants to State
	16,829	CFDA 84.010	Title I Grants to Local Educational Agencies
	16,177	CFDA 84.048	Career and Technical Education
	13,991	CFDA 84.367	Improving Teacher Quality State Grants
	2,760	CFDA 84.287	Twenty-First Century Community
<u>\$</u>	<u>134,268</u>		

Recommendation:

PRDE shall develop an adequate system to prevent improper payments that later result in the account receivable balances.

Puerto Rico Department of Education
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Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Finding Number: 2014-02

Federal Programs:

All federal financial assistance programs

Category:

Financial Statement Finding - Information Technology (IT) General Controls
Internal control

Compliance Requirement:

Special Tests and Provisions

Condition:

During our assessment of the information technology area we noticed the following:

- Inactive accounts and accounts for terminated or reassigned employees and contractors are not being disabled, removed, or adjusted in a timely manner.
- There is no formal process for periodically assessing PRDE's IT security vulnerabilities and there has been no assessment of the IT's overall security environment. Although PRDE has firewalls, intrusion detection and virus detection systems, review of these network devices and related logs are performed infrequently, and evidence of the reviews is not retained.
- There has been no assessment of the SIFDE's user profiles.

Criteria:

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

34 CFR Section 80.20 (a) and (b) (1), (2) and (3) establish that:

1. A state must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its sub grantees and cost-type contractors, must be sufficient to:
 - a. Permit 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:

Puerto Rico Department of Education
(An Executive Agency of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

- 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.
 - c. Source documentation – Accounting records must be supported by such source documentation or cancelled checks, paid bills, payrolls, time and attendance records, contract and sub-grant award documents, etc.
3. Effective control and accountability must be maintained for all grant and sub grant cash, real and personal property, and other assets.

Cause:

Lack of adequate controls to 1) disable access rights and update status of terminated employees on a timely basis, 2) periodically assess IT security vulnerability, and 3) periodically review and approved the user and IT personnel access rights.

Effects:

The risk of failing to inform the group in-charge of performing SIFDE security functions is that terminated personnel access is not disabled on a timely basis. This situation may result in:

- “Orphan” accounts can be targeted by hackers: user accounts often remain active after employee termination
- Security risks: “back doors” can allow access to sensitive assets even after network access has been removed
- Cannot trace who accesses orphan accounts; insiders can learn the credentials of departing employees and contractors.
- Improper salary and suppliers payments.

The risk of not performing an evaluation of PRDE’s network security causes that PRDE’s network perimeter may have weaknesses that Management is unaware of. These weaknesses could be exploited to allow an individual to obtain improper and unauthorized access to PRDE’s IT systems and data.

The risk of not performing an evaluation of the SIFDE's user profiles is that employees' responsibilities within the organization could have changed without being noticed and may cause an individual to have excessive system access that allows them to perform unauthorized transactions.

Puerto Rico Department of Education
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Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Questioned Costs:

Could not be determined.

Recommendation:

- Management should ensure that the SIFDE Support Team is informed in a timely manner about employee terminations to ascertain account access are appropriately removed or re-provisioned and to allow an appropriate update of access such as: activation for new users and deletion of old accounts.

Also, the IT Department should improve or develop a policy to disable accounts for users who are no longer working for PRDE and periodically review all SIFDE accounts for terminated employees to ensure only approved personnel have access to the system. Payroll department should also be promptly informed of employee terminations in order to avoid salary overpayments.

- Management should consider performing an assessment of both the internal and external security environment of PRDE. This includes reviewing and evaluating the network perimeter (firewall, routers, etc.), as well as network, system and application security event logging and follow-up procedures. Evidence of the assessment process should be maintained for future reference.
- Management should perform periodic reviews of user profiles and assignments to groups to maintain the segregation of duties established by PRDE. Such a review also helps to ensure compliance with security policies. Control should include a review of network operating system access, application access and database access.

Puerto Rico Department of Education
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Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Finding Number: 2014-03

Federal Programs: CFDA No. 10.555, 10.559; Child Nutrition Cluster
CFDA No. 10.560; State Administrative Expenses for Child Nutrition
CFDA No. 84.002; Adult Education- Basic Grants to States
CFDA No. 84.027, 84.173; Special Education Cluster
CFDA No. 84.048; Career and Technical Education - Basic Grants to States
CFDA No. 84.196; Education for Homeless Children and Youth

Category:

Financial Statement Finding (Payroll matters)
Internal control

Compliance Requirement:

Activities Allowed or Unallowed
Allowable Costs/Cost Principles

Condition:

During our testing of internal controls and compliance, we selected one-hundred and sixty seven (167) disbursements which relates to payroll payments from which a total of one-hundred and forty four (144) employees were selected for our testing procedures. While performing our review over the physical personnel files maintained by the Human Resources department and the payroll stubs and evidence provided by the Payroll department, we noted the following matters and exceptions:

- In thirty-one (31) of one-hundred and sixty seven (167) disbursements; representing a total of twenty-eight (28) employees, we noted that the physical employees' files were not updated as to the actual monthly salary and applicable percentage of retirement withholding causing discrepancies between the salaries information included at the physical employees' files, payroll reports and payroll stub recalculations. Instead, we further were provided with information gathered from the payroll system (e.g. STAFF) where the PRDE electronically maintain the employees' information and changes in salary. After this examination, we concluded the following:
 - In one (1) instance, the payroll payment selected was understated. There were no changes in the payroll system since July 2013.
 - In two (2) instances, no percentage of retirement was withheld for two employees for whom percentage of withholding was required as noted during our examination over physical employees' files.
- During our review of physical employees' files, we also noted that general increases in salaries by determinations of PRDE's management are not properly documented on the physical employees' files maintained by the Human Resources department.

Puerto Rico Department of Education
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Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

- During our review of physical employees’ files, we noted that the following documentation was missing from the files examined:

Documents Missing	Total Files Examined	Document Not Found/Exceptions
I-9 Form	144	2
Good Behavior Certificate	144	4
499R-4 (Income Tax Withholding Form)	144	41

In addition, in four (4) of one-hundred and forty four (144) cases, we noted that the 409 Form “Informe de Cambio” was not properly signed by the employee.

The above conditions reflect that established procedures are not being followed and consequently, documents required by federal and local law are not consistently obtained and /or properly filed.

Criteria:

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

34 CFR Section 80.20 (b) (3) establishes that effective control and accountability must be maintained for all grant and sub grant cash, real and personal property, and other assets. An effective internal control system over payroll procedures should have a control structure in place to provide reasonable assurance that all employees being paid with federal funds are performing duties directly related to the federal program from which they are being paid and that payroll documentation comply with federal regulations.

The Immigration and Nationality Act (INA), which was amended by the Immigration Reform and Control Act of 1986, requires employers to verify the identity and work eligibility of employees hired after November 6, 1986. It is illegal to hire a person who is not authorized to work in the United States, having knowledge of his/her situation. As part of this process, employers must complete the Immigration and Naturalization Service’s Form I-9 for all employees, whether they are citizens or noncitizens.

PRDE’s “Reglamento de Personal Docente del Departamento de Educación”, article XVII, section 2 establishes that employees’ files should contain the following information: 1) report of changes regarding status, salary and classification; 2) good behavior certificate, among others.

The Puerto Rico Treasury Department requires the proper completion of the Withholding Exemption Certificate (Form 499-R-4) for each employee. The employer shall consider information provided by the employee in this Form regarding personal exemption, exemption for dependents and allowance for deductions to withhold according to the Manual for Employers on Withholding at Source of Income Tax on Wages corresponding to any taxable year. This Form should be included in the employees’ files to support the income tax withholding on payroll payments.

Puerto Rico Department of Education
(An Executive Agency of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Cause:

Lack of monitoring controls to ensure the following: 1) compliance with policies and procedures, 2) completeness of employees' files, and 3) appropriateness of payroll payments and corresponding withholdings.

Effects:

The above situations may result in (a) non-compliance with state and federal employment laws and regulations that could lead to cost disallowances, sanctions against PRDE, and over/understatement of payroll expenditures.

Questioned Costs:

Could not be determined

Recommendation:

PRDE shall ensure that: (a) all personnel files are updated and complete; and (b) all payroll related transactions are properly supported. PRDE shall continuously monitor this process to ascertain that control activities are functioning as designed and in compliance with applicable state and federal employment laws.

Puerto Rico Department of Education
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Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Finding Number: 2014-04

Federal Programs: CFDA No. 84.048; Career and Technical Education - Basic Grants to States

Category:

Internal control/Compliance

Compliance Requirement:

Allowable Costs/Cost Principles

Level of Effort - Supplement Not Supplant

Condition:

In seven (7) of fifty-seven (57) disbursements selected for testing in the above program, we noted the following exceptions:

- For one (1) instance; while determining whether the disbursement selected is related to an allowable activity of the program, we noted that the disbursement relates to the purchase of four (4) air conditioning units. The supporting documentation of the transaction is not accompanied by any justification which detail the professional judgment used by the PRDE's personnel to determine that this disbursement is an allowable cost and that the program is not supplanting funds.

The exception noted relates to the following disbursement:

Voucher Number	Voucher Date	Amount	Questioned Costs
494386	3/18/2014	\$ 8,400.00	\$ 8,400.00

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Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

- For six (6) instances; while determining whether the disbursement selected is related to an allowable activity of the program, we noted that the disbursements relates to transportation services charged to the program. The supporting documentation of these transactions does not include a full detail of the students attended; therefore, we were unable to determine if the service was provided exclusively for the benefit of Career and Technical Education Program’s students, per Section 135(a)-(c) of Perkins IV.

The exception noted relates to the following disbursements:

Voucher Number	Voucher Date	Amount	Questioned Costs
511537	5/14/2014	\$ 1,710.00	\$ 1,710.00
468414	12/2/2013	7,983.99	7,983.99
504567	4/23/2014	10,048.50	10,048.50
482980	2/5/2014	12,624.95	12,624.95
512076	5/15/2014	13,596.20	13,596.20
465420	11/15/2013	38,942.40	38,942.40
		\$ 84,906.04	\$ 84,906.04

Accordingly, costs related have been questioned.

Criteria:

34 CFR Sections 80.20 (b) (2), (3) 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.

34 CFR Sections 80.42 (a) (i) and (ii) establish that all financial and programmatic records, supporting documents, statistical records, and other records of grantees or sub grantees are required to be maintained by the terms of this part, program regulations or the grant agreement, or otherwise reasonably considered pertinent to program regulations or the grant agreement.

Perkins IV includes supplement not supplant and maintenance of effort requirements. The supplement not supplant provision prohibit states and local education providers from using Perkins IV funds (1) to provide services that state and/or local funds have provided or purchased in the previous year; (2) to provide services that are required to be provided under federal, state, or local law; or (3) to provide services for non-Career Technical Education (“CTE”) students but charged to Perkins IV for CTE students. However, Perkins IV funds may be used to pay for the costs of CTE services required in an individualized education program developed pursuant to section 614(d) of the Individuals with Disabilities Education Act and services necessary to meet the requirements of Section 504 of the Rehabilitation Act of 1973 with respect to ensuring equal access to CTE. The supplement not supplant criteria may be rebutted if the state or local education provider demonstrated that it would not have provided the services in the absence of Perkins IV funds.

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Cause:

Inadvertent oversight by the personnel in-charge of performing these procedures.

Effects:

The above conditions could result in the reimbursement of federal funds to the grantors for those claims not properly supported nor authorized by the corresponding grantors representatives. Additionally, due to the nature of these exceptions, PRDE is exposed to administrative penalties and sanctions by the Federal Government.

Questioned Costs:

\$ 93,306

Recommendation:

We recommend PRDE to maintain adequate documentation to support its expenditures. Also, PRDE must ensure that the use of Perkins funding for transportation and any other expenditure, is for the exclusive benefit of students enrolled in the Career and Technical Education Program.

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Finding Number: 2014-05

Federal Programs: CFDA No. 84.048; Career and Technical Education - Basic Grants to States
 CFDA No. 84.287; Twenty-First Century Community Learning Centers
 CFDA No. 84.377, 84.388; School Improvement Grants Cluster

Category:

Internal control/Compliance

Compliance Requirement:

Cash Management

Condition:

The above programs receive funds under the advance cash management method. In seven (7) of six-hundred and seven (607) disbursements selected for testing, the federal funds deposited to the Entity's account were disbursed after the required time frame of three (3) business days of their availability.

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

CFDA No. 84.048; Career and Technical Education - Basic Grants to States

Voucher Number	Voucher Date	Amount
502055	4/10/2014	\$ 4,973.80
14AP8112	8/26/2013	17,252.00
		\$ 22,225.80

CFDA No. 84.287; Twenty-First Century Community Learning Centers

Voucher Number	Voucher Date	Amount
443361	10/24/2013	\$ 81,292.95
484107	4/2/2014	555,363.00
		\$ 636,655.95

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CFDA No. 84.377, 84.388; School Improvement Grants Cluster

Voucher Number	Voucher Date	Amount
461533	10/30/2013	\$ 330.40
483132	2/6/2014	15,950.00
501603	5/6/2014	393,703.00
		\$ 409,983.40

Criteria:

34 CFR Section 80.20 (b) (7) establishes that procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees must be followed whenever advance payment procedures are used.

31 CFR Section 205.33 (a) establishes that a State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project.

Cause:

The internal policies require that disbursements are issued seven (7) days after the voucher is prepared. This funding technique used by the Entity to minimize time elapsed between receipt of Federal funds and actual disbursement does not permit full compliance with this area.

Effects:

Due to the significant amount of federal funds received, PRDE could be exposed to significant administrative penalties or sanctions by the grantor, including the assessment of interest cost on funds that were not disbursed within the required time. In the instances identified during our tests, estimated interest earned on Federal cash held more than three business days, is below \$10,000.

Questioned Costs:

None

Recommendation:

We recommend management to enforce its internal policies, processes and controls to minimize the time elapsed between receipt of Federal funds and actual disbursements and ensure compliance with the Federal requirements.

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Finding Number: 2014-06

Federal Programs: CFDA No. 84.010; Title I Grants to Local Educational Agencies

Category:

Internal Control

Compliance Requirement:

Eligibility

Condition:

During our understanding of eligibility procedures for the above program, we noticed the following exception:

- PRDE determines the eligibility of TAS to receive Title I funds based on socioeconomic study 2012-2013. The amount of funds that a school receives is determined by the number of children from low-income families that live in the school attendance area. The School Director or Area Superintendent is responsible to enter into SIE (Sistema Información Estudiantil) the socioeconomic data captured. Socioeconomic data per student considers data such as: student name, age, family income and family members and later the Planning Division and Federal Affairs Office determine the poverty level percent of each school. During our test of controls, we visited schools to ascertain that the data entered into SIE as described above is accurate in order to rely on information used by PRDE to make eligibility computations. After examination of data during our testing procedures, we noticed many instances where the data entered on SIE does not match the physical forms maintained at the schools' records and which were completed by parents or in-charge, for example:
 1. the date of birth on student file was not the same as the date of birth used by SIE to compute the level of poverty, therefore, socioeconomic studies for 2012-2013 and 2013-14 could be misstated
 2. total number of forms entered in SIE did not equal the total number of forms ("Datos de unidad familiar") physically observed at schools, therefore, socioeconomic study 2012-2012 and 2013-2014 could be misstated. Also, from various schools we visited, we were able to physically examine 3,686 "Datos de unidad familiar" forms and noticed that a total of 684 or 19% were incomplete, not matching with SIE information
 3. for various students selected, we noted that the information such as salaries or family members documented on "Datos de unidad familiar" form does not match with information entered on SIE
 4. from various forms ("Datos de unidad familiar") examined, some students were not found on SIE, therefore, we were unable to complete our procedures.

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Based on the above instances; we concluded that data entered on SIE does not represents accurate and complete student information; therefore, we were unable to conclude that such schools could be eligible as a TAS for school year 2013-2014.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2CRF part 215) require that non-federal entities receiving Federal awards (i.e. auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Cause:

Lack of monitoring controls over eligibility activities and appropriate level of supervisory review.

Effects:

PRDE could be exposed to administrative sanctions or cost disallowances since ineligible participants may be receiving services under the program.

Questioned Costs:

None

Recommendation:

We recommend PRDE to train employees as to the proper use of SIE and implement more aggressive monitoring procedures to ascertain that information used for eligibility assessment is correct.

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Finding Number: 2014-07

Federal Programs: CFDA No. 84.027, 84.173; Special Education Cluster

Category:

Internal Controls/Compliance

Compliance Requirement:

Eligibility

Condition:

In testing compliance with the requirements related to the eligibility for individuals of this program, we selected a random sample of ninety three (93) participants. From the ninety three (93) participants' files examined, the following instances of non-compliance were noted:

1. In forty-one (41) instances of ninety three (93) participants' files tested, the document SAEE-PEI "Programa Educativo Individualizado", was not properly signed by the School Director. However, no questioned costs have been determined since the forms were signed by the initial person authorized to perform this procedure.
2. In nine (9) instances of ninety three (93) participants' files tested, the document "Evaluación Inicial" was not completed during the required time frame. Therefore, the participant could have been receiving benefits under this program before completing this eligibility assessment.
3. In two (2) instances of ninety three (93) participants' files tested, the "Determinación de Elegibilidad (Inicial)" was not available for our examination.
4. In two (2) instances of ninety three (93) the participants' files tested, the "Referido de registro" and the "Referido para Evaluación Inicial" were not available for our examination. However, no questioned costs have been determined because the eligibility determination for these participants was performed.
5. In five (5) instances of ninety three (93) participants' files tested, the "Determinación de Elegibilidad" was not completed during the required time frame. Therefore, the participant could have been receiving benefits under this program before completing this eligibility assessment.
6. In eleven (11) instances of ninety three (93) the participants' files tested, the Analysis of Information Available (Re-evaluation) was not available for our examination.
7. In one (1) instance of ninety three (93) participants' files tested, we noted that the participant has not been enrolled for the academic year 2013-2014. Also, the "Forma de Egreso" (SAEE 12) was not properly completed.
8. In one (1) instance of ninety three (93) participants' files tested, the PEI, the "Informe de progreso" and the "Minutas de Revisión del Programa educativo individualizado" for the academic year 2013-2014 was not available for our examination.

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9. In one (1) instance of ninety three (93) participants' files tested, the participant's file was not available for our examination.

Total expenditures for the Special Education Program Cluster during the year ended June 30, 2014 amounted to \$118,095,600. The Child Count Report Raw Data submitted by PRDE shows 123,754 participants. Accordingly, the cost per participant was estimated at \$954. We questioned the cost of 24 of the sample participants, which represents \$22,896 ($\954×24).

Criteria:

The Individual with Disabilities Education Act (Public Law 105-17) ("IDEA") is a federal law designed to protect the rights of students with disabilities by ensuring that everyone receives a free appropriate public education, regardless of ability. Furthermore, IDEA strives not only to grant equal access to students with disabilities, but also to provide additional special education services and procedural safeguards. Children between the ages of 3 and 21, who meet the eligibility criteria, can qualify for services under IDEA. The categories of disabilities are: autism, deaf/blind, deafness, hearing impaired, mental retardation, multiple disabilities, orthopedic impairment, serious emotional disturbance, specific learning disabilities, speech or language impairment, traumatic brain injury, visual impairment including blindness, and other health impairment. To be eligible, a student must have a disability that adversely affects her or his educational performance and must need special education in order to receive an appropriate education.

Cause:

The exceptions indicated above were caused by: (a) lack up proper control activities over this area, (b) inadequate filing and or/review of eligibility forms to determine that the student complies with eligibility requirements under this program.

Effects:

PRDE could be exposed to administrative sanctions or cost disallowances since ineligible participants may be receiving services under the program. Additionally, the ability to manage federal awards in compliance with the laws, regulations, and provisions of contracts and grant agreements could also be questioned.

Questioned Costs:

\$ 22,896

Recommendation:

We recommend PRDE to complete the eligibility verification process for those students for whom eligibility could not be determined because participants' files were missing or the documents evidencing eligibility were not available. Also, PRDE shall determine any liability to the grantor for any services provided to ineligible participants resulting from the verification procedures, if any.

Additionally, in order to prevent the recurrence of the above conditions, PRDE shall emphasize that the personnel responsible for the determination of eligible participants fully understand the program regulations and requirements to ensure that the program's efforts are focused on eligible participants.

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Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Finding Number: 2014-08

Federal Programs: CFDA No. 10.560; State Administrative Expenses for Child Nutrition
CFDA No. 45.310; State Library Program
CFDA No. 84.002; Adult Education- Basic Grants to States
CFDA No. 84.010; Title I Grants to Local Educational Agencies
CFDA No. 84.048; Career and Technical Education - Basic Grants to States
CFDA No. 84.377, 84.388; School Improvement Grants Cluster

Category:

Internal Controls/Compliance

Compliance Requirement:

Equipment and Real Property Management

Condition:

While considering our understanding of the state's policies and procedures that shall be in place at the Entity's Central Office and Public Schools in relation to property and equipment, we noticed that the required annual physical inventory has been not performed by the PRDE's Property and Equipment Division (the Property Division) during the last two years.

We also noticed that the Property Division does not have adequate monitoring controls and processes related to dispositions and transfers of assets, to properly reflect them in its accounting records.

Criteria:

34 CFR Part 80.32 (d)(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of federal participation in the cost of the property, the location, use and condition of the property and any ultimate disposition data including the date of disposal and sale price of the property.

34 CFR Part 80.32 (d)(2) establishes that a physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

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

Chapter VI Section C (3) (4) of the Procedures for the Control and Accounting of Property Manual establishes that annually, the Property Custodian shall prepare an annual physical inventory subject to his/her jurisdiction and record it on Form DE-795 "Inventario Físico de Activos". In addition, the Property Custodian shall submit to PRDE Director of Property and School's Director a copy of such Form DE-795.

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Cause:

The Entity has limited personnel to cover the assigned tasks. Also, there is a lack of adequate controls over property and equipment area.

Effects:

PRDE is exposed to the risk of possible unauthorized use, misappropriation and disposition of equipment due to the lack of internal controls and proper supporting accounting records. The lack of continuous monitoring procedures over property and equipment can result in inaccurate accounting records.

Questioned Costs:

Could not be determined.

Recommendation:

We recommend management to take a physical inventory of the property as soon as possible. Results should be reconciled with the property records to ascertain and adjust differences, if any. The implementation of this procedure will help management to verify that property and equipment is being properly safeguarded and used solely for authorized purposes.

Also, we recommend management to enforce the procedures being followed by the Property Division to allow a mitigation of the possible risks of misappropriation and inadequate disposition of the equipment.

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Year Ended June 30, 2014

Finding Number: 2014-09

Federal Programs: CFDA No. 10.560; State Administrative Expenses for Child Nutrition
CFDA No. 45.310; State Library Program
CFDA No. 84.002; Adult Education- Basic Grants to States
CFDA No. 84.010; Title I Grants to Local Educational Agencies
CFDA No. 84.048; Career and Technical Education - Basic Grants to States
CFDA No. 84.377, 84.388; School Improvement Grants Cluster

Category:

Internal control/Compliance

Compliance Requirement:

Equipment and Real Property Management

Condition:

We were provided with a database of disbursements made by the Puerto Rico Department of Education (PRDE) during the year ended June 30, 2014. During our audit procedures, we identified those disbursements related to purchases for the acquisition of equipment and real property. We selected three-hundred and forty seven (347) disbursements and the following exceptions were noted:

- In fifty one (51) instances, we noted the disbursement selected was classified as an acquisition of equipment; however, PRDE's property records or asset list were not updated to reflect this acquisition. Accordingly, PRDE's is not maintaining accurate and complete property records.
- We visited each location identified on PRDE's property records for the items selected for inspection and noticed that in two-hundred and eighty seven (287) instances the form Property-in-Use (Form SC-1211); used to document the receipt/acquisition of equipment, was not available for examination.
- We visited each location identified on PRDE's property record and after requesting to see the item selected for inspection, we noticed the following issues:
 1. In one-hundred and thirty seven (137) instances the equipment was not properly tagged by identifying the assigned property number.
 2. In two-hundred and fifty (250) instances PRDE's property records were not updated to indicate the current custodian of the property.

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3. In one-hundred and forty four (144) instances the property was not available for our examination. Accordingly, we were unable to examine the property and to determine the existence of the item by reviewing its serial number, property record number, acquisition date, cost, and percentage of federal participation in the cost, among other information and to determine if the property is adequately safeguarded. Questioned costs related to this situation amount to \$213,535.

Criteria:

34 CFR Section 80.20 (b) (3) establishes that effective control and accountability must be maintained for all grant and sub grant cash, real and personal property, and other assets. Grantees and sub-grantees must adequately safeguard such property and must assure that it is used for authorized purposes.

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

34 CFR Part 80.32 (d) (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of federal participation in the cost of the property, the location, use and condition of the property and any ultimate disposition data including the date of disposal and sale price of the property.

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

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

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

Cause:

The exceptions noted above are primarily due to the lack of personnel and resources in the Property Division, as well as the lack of adequate filing and communication procedures among the different locations of PRDE (i.e. regions, districts, community schools and central office) related to the acquisition and handling of property and equipment.

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Effects:

PRDE is exposed to the risk of possible unauthorized use, misappropriation and disposition of equipment due to the lack of internal controls and proper supporting accounting records. The lack of continuous monitoring procedures over property and equipment can result in inaccurate accounting records.

Questioned Costs:

\$ 213,535

Recommendation:

Management should enforce the policies and procedures implemented by the Property Division to ensure they address all requirements established by state and federal regulations on property management. Personnel assigned to the recording and safeguarding of the property shall receive adequate training to ascertain compliance with all state and federal regulations and to allow proper recording and safeguarding of all property and equipment.

Additionally, all property records shall be reviewed to make sure that all information included therein is accurate and pertinent. Property records shall include the required information for equipment purchased with federal funds to improve accountability, control and to detect possible loss or theft of property.

Also, all property and equipment shall have a property tag number that agrees with the identification number in the property records.

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Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Finding Number: 2014-10

Federal Programs: CFDA No. 84.287; Twenty-First Century Community Learning Centers

Category:

Internal control/Compliance

Compliance Requirement:

Matching, Level of Effort, Earmarking

Condition:

PRDE requires the matching of funds from all eligible entities that are on contract for three years or more. For the fiscal year ended June 30, 2014, the matching percentage for sub-awardees with three or more years of contract is 30%.

In order to test the matching requirement, we selected ten (10) out of eighty (80) sub-recipient projects, of which one (1) the matching requirement was applicable. For this item we requested the matching contribution and the same was not available for our examination. In addition, we selected two (2) additional projects of which matching requirement were applicable and the matching contribution was also not available for our examination.

Criteria:

An SEA may require matching funds on a sliding scale based on the relative poverty of the population to be targeted and the ability of the grantee to obtain such matching funds. The match may not exceed the amount of the grant award and may not be derived from other Federal or State funds. Each State educational agency that requires an entity to match funds shall permit the entity to provide all or any portion of such match in the form of in-kind contributions (20 USC 7174(d)).

Cause:

Inadvertent oversight by the personnel in-charge of documenting this contribution in the file.

Effect:

The inability of PRDE to document the matching contribution could be interpreted as a failure to achieve the program objectives and lead to a loss of funds due to material noncompliance.

Questioned costs:

Could not be determined

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Recommendation:

PRDE shall reinforce its documentation in sub-recipients' files and ensure its written policies include the following:

1. responsibilities for determining required amounts for matching;
2. methods for valuing in-kind contributions of property and services;
3. allowable costs that may be claimed for matching;
4. methods of accounting for and documenting amounts used to calculate amounts claimed;
5. proper monitoring or follow up procedures to the sub-recipients to ascertain compliance with matching requirements. If sub-recipients do not meet the matching requirements, their awards shall be adjusted or reduced accordingly.

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Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Finding Number: 2014-11

Federal Programs: CFDA No. 45.310; State Library Program

Category:

Internal control/Compliance

Compliance Requirement:

Reporting

Condition:

During our audit compliance procedures, we noticed that the State Library Program is not filing the Quarterly Grant Accrual Reports, as required by the Institute of Museum and Library Services (IMLS). Also, we noticed that State Program Report (SPR) for grant award 2013-2014 was submitted late.

Criteria:

As per Grant Award Guidance from IMLS, grantees must report grant accruals on a quarterly basis to IMLS and should submit this information no later than four (4) business days after the last day of the quarter. Each quarter's accrual must represent the total expenses for active grant awards that a grantee has incurred during the grant period but has not yet submitted to IMLS for reimbursement.

As per Grant Award Guidance from IMLS, the SPR is due no later than December 30, 2014. This is a web-based online report which addresses the requirements of the Library Services and Museum Act (LSTA) and the Government Performance and Results Act (GRPA). The SPR contains program and statistical data.

Cause:

Delays and lack of communication among the departments and the personnel involved in the reporting process.

Effects:

Failure to comply with grant requirements may result in the withholding of grant funds, the suspension or termination of the grant, and/or the return of grant funds. It also may jeopardize any pending or future applications with IMLS.

Questioned Costs:

None.

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Recommendation:

We recommend PRDE's management to emphasize the importance of submitting required grant documentation, including final narrative and financial reports, in a timely manner.

We recommend PRDE's management to strengthen its internal control procedures for the preparation, review and submission of required federal reports to ascertain compliance and timely filing. The State Library Program should also file the corresponding missing reports. Developing a checklist could be a useful tool to maintain control of reporting due dates.

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Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Finding Number: 2014-12

Federal Programs: CFDA No. 84.007, 84.033, 84.063; Student Financial Assistance Cluster

Category:

Internal control/Compliance

Compliance Requirement:

Reporting

Condition:

While performing our audit procedures over reporting compliance requirement, we noticed that the submission of the Single Audit 2012-2013 report (compliance audit) was submitted after the required deadline of March 31, 2014 and no waiver was requested to the United States Department of Education (“USDE”); therefore, report was submitted late.

Criteria:

34 CFR 668.23(a)(4); *Compliance audits and audited financial statements*, states that an institution must submit annually to the Secretary its compliance audit and its audited financial statements no later than six months after the last day of the institution’s fiscal year.

Schools are required to have audits performed under the guidelines of the Single Audit Act; which satisfy the Department's (USDE) audit requirements. A copy of the audit must be submitted to the Department through the eZ-Audit website using the submission deadlines established by the Single Audit Act.

The Secretary gives notice that on June 16, 2003, the Department will fully implement the eZ-Audit process under which an institution that participates, or seeks to participate, in the Federal student aid programs submits its compliance and financial statement audit information electronically. The Federal student aid programs are authorized under Title IV of the Higher Education Act of 1965, as amended (Title IV, HEA Programs). This notice applies to any compliance or financial statement audits that an institution is required to submit under 34 CFR 600.20(a) or (b) to begin or continue participating in the Title IV.

Cause:

Inadvertent oversight by the personnel in-charge of performing these procedures.

Effects:

The Entity's failure to submit a compliance and financial statement audit by the date permitted and in the manner required under 34 CFR 668.23 may result in the USDE initiating adverse action against the Entity, including terminating or revoking the Entity's program participation agreement, or, if the Entity has an application pending for renewal of its certification, denial of that application.

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Further, failure to submit an acceptable compliance and financial statement audit by the due date may cause the USDE to determine that the institution is in violation of the past performance provisions set forth at 34 CFR 668.174(a)(3), resulting in, among other things, provisional certification, and placement on a heightened cash monitoring payment method.

Questioned Costs:

None.

Recommendation:

We recommend PRDE's management to strengthen its internal control procedures for the preparation, review and submission of required federal reports to ascertain compliance and timely filing.

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Year Ended June 30, 2014

Finding Number: 2014-13

Federal Programs: CFDA No. 84.002; Adult Education- Basic Grants to States

Category:

Internal control/Compliance

Compliance Requirement:

Reporting

Condition:

During our audit compliance procedures, we noticed that the Adult Education Program is not filing the Federal Funding Accountability and Transparency Act report for the sub-recipients with \$25,000, as required.

Criteria:

As per Federal Funding Accountability and Transparency Act (“FFATA”) 2008, as amended, any sub-recipient which receives a Federal grant greater than or equal to \$25,000 after October 1, 2010 are subject to FFATA sub-award reporting requirements as outlined in the Office of Management and Budget. The prime awardee is required to file a FFATA sub-award report by the end of the month following the month in which the prime recipient awards any sub-grant greater than or equal to \$25,000.

The FFATA Sub-award Reporting System (“FSRS”) is the reporting tool Federal prime awardees (i.e. prime contractors and prime grants recipients) use to capture and report sub-award and executive compensation data regarding their first-tier sub-awards to meet the FFATA reporting requirements. Prime contract awardees will report against sub-contracts awarded and prime grant awardees will report against sub-grants awarded.

Prime grant recipients must submit FFATA required data into FSRS by the end of the month, plus 30 days, in which the award or award amendment is made.

Cause:

Turnover of personnel and lack of knowledge of applicable reporting requirements.

Effects:

Non-compliance with the FFATA reporting requirement is a violation of the award, and they reserve the right to take action, as outlined in the award agreement, to ensure compliance.

Questioned Costs:

None.

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Recommendation:

We recommend PRDE's management to strengthen its internal control procedures for the preparation, review and submission of required federal reports to ascertain compliance. In addition, PRDE should assign ultimate responsible personnel to be in-charge of the filing of applicable reports in a timely manner. We suggest to the Adult Program to file the corresponding missing reports. Management could develop a checklist as a useful tool to maintain control of reporting due dates.

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Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Finding Number: 2014-14

Federal Programs: CFDA No. 84.287; Twenty-First Century Community Learning Centers

Category:

Internal control/Compliance

Compliance Requirement:

Reporting

Condition:

In order to test the reporting requirement, we verified the completeness of the information included in the Federal Funding Accountability and Transparency Act Report (“FFATA”) noting that one sub-recipient was not reported since it does not have a DUNS number.

Criteria:

As stated in the 2 CFR Subtitle B Part 25, an agency may not make an award to an entity until the entity has provided a valid DUNS number and maintains an active registration.

At the time an agency is ready to make an award, if the intended recipient has not complied with an applicable requirement to provide a DUNS number or maintain an active registration number, the agency may determine the applicant is not qualified to receive an award, and may use that determination as a basis for granting the award to another applicant.

Cause:

Inadvertent oversight by the personnel in-charge of performing these procedures.

Effect:

PRDE could be awarding funds to a non-allowable sub-recipient; therefore, could be exposed to the return of granted funds.

Questioned costs:

\$ 183,709

Recommendation:

PRDE shall award balances only to those qualified sub-recipients which has available the DUNS number at the time of the award. If the sub-recipient has not the required information, PRDE must assess the case and could make an award to another qualified sub-recipient.

Puerto Rico Department of Education
(An Executive Agency of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Finding Number: 2014-15

Federal Programs: CFDA No. 84.007, 84.033, 84.063; Student Financial Assistance Cluster

Category:

Internal control/Compliance

Compliance Requirement:

Reporting

Condition:

During our compliance testing with this requirement, we selected fifty-five (55) participants. In one (1) case, PRDE failed to submit disbursement records to the Common Origination and Disbursement (COD) system within fifteen (15) days after making the PELL disbursement.

Criteria:

As per OMB No. 1845-0039, a school must submit disbursement records to the COD system no later than fifteen (15) days after making a Pell disbursement.

Cause:

Inadvertent oversight by the personnel in-charge of performing these procedures.

Effects:

Instances of noncompliance may expose PRDE to administrative actions by the grantor and/or questioned costs. In addition, the Department (USDE) may initiate an adverse action, such as a fine or other penalty for such failure.

Questioned Costs:

None

Recommendation:

We recommend PRDE to develop adequate standards and procedures for processing disbursement records to the COD system in a timely manner, no later than fifteen (15) days after making the disbursement.

Puerto Rico Department of Education
(An Executive Agency of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Finding Number: 2014-16

Federal Programs: CFDA No. 84.002; Adult Education - Basic Grants to States

Category:

Internal control/Compliance

Compliance Requirement:

Sub-recipient Monitoring

Condition:

To test compliance with this requirement, we selected five (5) sub-recipients and noted the following instances of non-compliance:

1. In three (3) of five (5) sub-recipients' files examined or (60%), there was no evidence of sub-recipient corrective action, and additionally PRDE failed to take action in response of the monitoring findings not corrected by the subgrantee.
2. In five (5) of five (5) sub-recipients' files examined or (100%), the single audit or corresponding audited financial statements were not included in the sub-recipients' file; therefore, were not available for our examination.

Criteria:

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

31 U.S.C. §7502(f)(2)(B)(C) establishes that each pass-through entity shall: (i) monitor the sub-recipient's use of Federal awards through site visits, limited scope audits, or other means; and (ii) review the audit of a sub-recipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the sub-recipient by the pass-through entity.

Cause:

Program's personnel did not effectively manage the findings assessed during the monitoring procedures and inadequate filing of required documents.

Effects:

PRDE may be exposed to administrative sanctions by the grantor and/or questioned costs.

Puerto Rico Department of Education
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Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Questioned Costs:

Could not be determined

Recommendation:

We recommend PRDE to adhere to the guidelines prescribed to monitor the sub-recipients and to follow up on the corrective action plans to evaluate its impact on the sub-recipients' compliance with the federal program requirement.

PRDE should ascertain appropriate action is taken to prevent the recurrence of the instances reported and take timely action in response to monitoring findings by requiring the sub-recipients to take immediate corrective actions on deficiencies identified. In addition, PRDE should enhance its monitoring procedures to ascertain all required documents from sub-recipients are properly obtained and filed.

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Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Finding Number: 2014-17

Federal Programs: CFDA No. 10.555, 10.559; Child Nutrition Cluster

Category:

Internal control

Compliance Requirement:

Special Tests and Provisions - Accountability for United States Department of Agriculture (USDA)-Donated Foods

Condition:

During our internal control and compliance testing of accountability of donated food requirement, we performed on-site visits and 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.

We visited the Arecibo and Mayagüez locations and noticed that the warehouses performed the physical inventory procedures at the end of each month accordingly to the “Manual de Sistemas y Procedimientos de la Autoridad Escolar de Alimentos Sección de Almacenamiento y Distribución” (the “Manual”).

We also visited the Bayamón location and found that the warehouse personnel performed the physical inventory procedures at the end of each month accordingly to the manual; except for the physical inventory for the month ended June 30, 2014. Therefore, we considered this matter as an exception within its established internal controls over compliance as documented in the Manual.

Criteria:

The School Food Authority states on the “Manual de Sistemas y Procedimientos de la Autoridad Escolar de Alimentos Sección de Almacenamiento y Distribución”; on section “Procedimiento para el Control de Inventario Físico de Productos”, that inventory count procedures are performed at the last business day of the month.

Cause:

No periodic observation of monitoring controls.

Effects:

The recurrence of this exception may lead PRDE not to be in compliance with the Federal requirement over accountability of donated foods.

Questioned Costs:

None

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Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Recommendation:

To ensure compliance with the accounting and handling of donated food, we recommend to enforce its internal control policies and to ensure that monthly physical inventory are performed and reconciled.

Puerto Rico Department of Education
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Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Finding Number: 2014-18

Federal Programs: CFDA No. 84.007, 84.033, 84.063; Student Financial Assistance Cluster

Category:

Internal control/Compliance

Compliance Requirement:

Special Tests and Provisions – Disbursement to or on behalf of students

Condition:

During our compliance testing with this requirement, we selected a sample of thirty six (36) students. For all cases examined, we noted that PRDE failed to make the Federal Work Study (“FWS”) disbursement at least once per month after the students completed the working hours. Instead, the payment corresponded to three (3) or more months of payroll.

Criteria:

34 CFR Sections 675.16 (a) (2) establish that an institution must pay a student FWS compensation at least once a month.

Cause:

Lack of adequate controls to: (a) process payments of the students during the corresponding month worked, and (b) no adequate training, supervision and monitoring on the personnel working with the program to comply with the applicable requirements.

Effects:

PRDE could be exposed to significant administrative penalties or sanctions by the grantor.

Questioned Costs:

None

Recommendation:

We recommend PRDE to develop adequate standards and procedures for processing FWS payments to students in a timely manner.

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Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Finding Number: 2014-19

Federal Programs: CFDA No. 84.007, 84.033, 84.063; Student Financial Assistance Cluster

Category:

Internal Controls/Compliance

Compliance Requirement:

Special Tests and Provisions - Recordkeeping

Condition:

During our audit procedures, we noted that PRDE does not have an adequate recordkeeping system that allows an easy audit trail of all transactions involving the processing of financial aid. For example, (i) the student account balance is not readily available. Instead, personnel needs to reconstruct the balance going through the transactions that occurred during the year with that student, (ii) while examining the attendance records, the School cannot retrieve the specific course where the student was enrolled. Instead, School personnel needs to go through each professor attendance record to look for the course the student was enrolled to confirm the information.

Criteria:

The Student Financial Assistance Handbook, (Vol. 2-Chapter 7), establishes that a school must keep comprehensive, accurate program and fiscal records related to its use of Financial Student Assistance (“FSA”) program funds. The importance of maintaining complete, accurate records cannot be overemphasized. Program and fiscal records must demonstrate the school is capable of meeting the administrative and fiscal requirements for participation in the FSA programs. In addition, records must demonstrate proper administration of FSA program funds and must show a clear audit trail for FSA program expenditures.

Cause:

Lack of up-to-date information systems to handle these activities.

Effects:

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

Questioned Costs:

None

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Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Recommendation:

We recommend management to improve the maintenance of the student accounts to provide for a clear audit trail of sources and uses of federal funds and to allow for the tracing or tracking of funds to verify that such federal funds have not been used in violation of the restriction and prohibitions of applicable laws and regulations.

Puerto Rico Department of Education
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Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Finding Number: 2014-20

Federal Programs: CFDA No. 84.010; Title I Grants to Local Educational Agencies

Category:

Internal control/Compliance

Compliance Requirement:

Special Tests and Provisions - Highly Qualified Teachers and Paraprofessionals

Condition:

During the year ended June 30, 2014, the Puerto Rico Department of Education had a total of 83 Targeted Assistance Schools (TAS). To test compliance with the eligibility requirements for this program, we randomly selected 10 TAS to visit. To test compliance with Highly Qualified Teachers (“HQT”) and Paraprofessionals (“HQP”) requirements, we requested to Directors the files for the HQT and HQP selected for examination and noticed the following:

- In four (4) of forty-two (42) teachers selected, we were unable to complete our testing procedures about HQT compliance requirements since the related school was closed for the academic year 2014-2015 and we were not provided with the information of the teachers for our examination.
- In two (2) of forty-two (42) teachers selected, we were unable to conclude about HQT compliance requirements during academic year 2013-2014 since during our visit at the school we were not provided with the information of the teachers for our examination.
- In one (1) of ten (10) schools visited, the Director confirmed to us that all teachers were highly qualified, however, PRDE’s census as of June 30, 2014 which was delivered to us indicated that there are no HQT at this school. Therefore, we were unable to conclude if the school Director made the corresponding notifications to parents/in-charge of students that took classes for more than 4 weeks with a non-highly qualified teacher.

Criteria:

As per Circular Letter 16 2011-2012, the School Director is responsible for the assessment of HQT in accordance with the guidelines established by No Child Left Behind Act. In connection with the assessment, the School Director must gather and send the documents to Central office, and also keep this evidence at the School. The School Director is the person responsible for keeping the HQT list up to date as per this Circular Letter.

Cause:

Unavailability of school personnel and lack of communication among the school and Central offices.

Puerto Rico Department of Education
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Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Effects:

Personnel not meeting state employment laws and regulations and federal merit system could expose PRDE to fail to meet the requirements which could lead to cost disallowances.

Questioned Costs:

Could not be determined

Recommendation:

We recommend PRDE to implement monitoring procedures over the School list of HQT and HQP. In addition lists should be readily available in order to ensure they can be provided upon any request to review compliance with this program requirement.

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Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Finding Number: 2014-21

Federal Programs: CFDA No. 84.010; Title I Grants to Local Educational Agencies

Category:

Internal control/Compliance

Compliance Requirement:

Special Tests and Provisions - Comparability

Condition:

While reviewing whether the Entity has developed procedures for compliance with the comparability requirement and that they maintain records updated at least biennially documenting its compliance with the comparability requirement, we noted that PRDE did not complete the comparability calculations. Therefore, any needed movement of personnel among schools was not performed.

Criteria:

Each Local Education Agency (“LEA”) must develop procedures for complying with the comparability requirements and implement the procedures annually. The LEA must maintain records that are updated biennially documenting compliance with the comparability requirements. The SEA, however, is ultimately responsible for ensuring that LEAs remain in compliance with the comparability requirement (Section 1120A(c) of ESEA (20 USC 6321(c))).

Cause:

Lack of adequate internal controls.

Effects:

PRDE is exposed to administrative penalties and sanctions by the Federal Government.

Questioned Costs:

Could not be determined

Recommendation:

We recommend management to develop and implement adequate internal controls and procedures that ensure PRDE’s compliance with the comparability requirements.

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Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Finding Number: 2014-22

Federal Programs: CFDA No. 84.010; Title I Grants to Local Educational Agencies
 CFDA No. 84.367; Improving Teacher Quality State Grants

Category:

Internal control/Compliance

Compliance Requirement:

Special Tests and Provisions - Schoolwide

Condition:

While evaluating the eligibility of the schools participating under the Schoolwide program, we noticed that two (2) schools; determined eligible by the Puerto Rico Department of Education and which received benefits under the program during the academic year 2013-2014, did not comply with the poverty level requirement of forty (40) percent or above.

Criteria:

As stated on the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, a school participating under Title I, Part A may, in consultation with its LEA, use its Title I, Part A funds, along with funds provided from the above-identified programs and other Federal, State, and local education funds, to upgrade the school's entire educational program in a schoolwide program. At least forty (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.

Cause:

Lack of monitoring controls to ensure only eligible schools receive benefits under this program.

Effects:

PRDE is exposed to sanctions and loss of funds because of non-supported computations for schools determined eligible to participate under this program.

Questioned Costs:

\$	71,531	CFDA 84.010	Title I Grants to Local Educational Agencies
	<u>31,264</u>	CFDA 84.367	Improving Teacher Quality State Grants
\$	<u>102,795</u>		

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Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Recommendation:

In order to prevent the recurrence of the above condition, PRDE shall maintain evidence of computations used to supports compliance with the requirement of the federal program.

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Schedule of Findings and Questioned Costs/Management's Response
Year Ended June 30, 2014

Finding No: 2014-01
Topic: Accounts Receivable
Federal Program: All federal financial
CFDA #: Various
Questioned Costs: \$134,268

Condition Found:

While testing the Entity's account receivables, the auditors noted that accounts receivable arise from overpayments or merchandise returns to suppliers, improper salary payments, payments to employees without accumulated vacations or sick leave balances, and others. Accordingly, expenditures reported in the federal financial assistance programs include unallowable costs for those amounts uncollected at the end of each year.

PRDE Response to Finding:

The PRDE Accounts Receivable Division continues the collection efforts for recorded accounts receivables. In order to expedite the collections for the overpayments, the Payroll Division implemented a procedure to deduct or withhold the amounts incorrectly paid on the current payments. To prevent future overpayments, the Human Resources Office will be updating their policies and procedures to expedite the process of the personnel transaction notifications. Training will be provided to the personnel.

Contact person: Orlando Negrón, Finance Deputy Secretary
Judith Parilla, Accounts Receivable's Supervisor
Humberto Tapia, Human Resources Interim Deputy Secretary

Anticipated completion date: June 30, 2015

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Schedule of Findings and Questioned Costs/Management's Response
Year Ended June 30, 2014

Finding No: 2014-02
Topic: Information Technology
Federal Program: All federal financial assistance programs
CFDA #: Various
Questioned Costs: Could not be determined

Condition Found:

When assessing the information technology area at PRDE, the auditors noted certain security risks matters mentioned below:

1. Inactive accounts and accounts for terminated or reassigned employees and contractors should be disabled, removed or adjusted in a timely manner.
2. There is no formal process for periodically assessing the Company's IT security vulnerabilities and there has been no assessment of the Company's overall security environment.
3. There has been no assessment of the SIFDE's user profiles.

PRDE Response to Finding:

Regarding matter #1:

A process has already being implemented at the PRDE Human Resources Division which establishes that in a weekly basis this office will notify the employees' termination to a designated personnel at the PRDE Information Technology Office ("OSIATD") so they proceed to disable the network access account to those employees. The Human Resources Division works towards a process so that this report could be generated automatically. This report is currently being provided to the different areas within PRDE where the different systems are managed, as well as their accounts. In most systems, once the access to the network is disabled, automatically the authorization to the applications is disabled as well.

PRDE also established the 1st of April of every year as a cut-off date to generate a list of all the active personnel at PRDE with all their access, and this will later be sent to all the areas supervisors to certify the status of each of these employees. With the feedback received from all the areas supervisors the OSIATD will work with the necessary changes in the access allowed to each staff according to their responsibilities and enable or disable them according to their status.

The OSIATD will be including a procedure on security policy as part of the amendments being work on its Procedures Manual to enable and disable the network to all temporary users, contractors, auditors, personnel from other agencies on special projects, and any other authorized person to ensure that their accounts are disabled after cessation of their functions within PRDE. This manual will be in effect for the next fiscal year 2015-2016.

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Year Ended June 30, 2014

Regarding matter #2:

To carry out the assessment of the security environment, both internally and externally, the OSIATD will conduct negotiations both with the Internal Audit Office of PRDE as well as with the Office of Management and Budget of Puerto Rico for them to collaborate in carrying out an assessment of the security in the vulnerability of information systems and networks of the PRDE. This type of evaluation consists of interviews, evaluation of the components of network security, including firewall, VPN, Content filtering, antivirus. In addition, this should include security applications (access and related procedures process).

As part of the amendments that currently are being included to the OSIATD Manual on policies and procedures of computer security, the PRDE will be including a process to ensure that periodically the above-mentioned safety components are reviewed and evaluated for compliance and effectiveness. The predetermined periods of review and evidence to sustain the completion of these processes will be established in this manual.

Regarding matter #3:

As mentioned above, PRDE established the 1st of April of every year as a cut-off date to generate a list of all the active personnel at PRDE with all their access, and this will later be sent to all the areas supervisors to certify the status of each of these employees. With the feedback received from all the areas supervisors the OSIATD will work with the necessary changes in the access allowed to each staff according to their responsibilities and enable or disable them according to their status.

Contact person: Maribel Pico, OSIATD Director
Loraine Bidot, Information Technology Coordinator

Anticipated completion date: FY 2015-2016

Puerto Rico Department of Education
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Schedule of Findings and Questioned Costs/Management's Response
Year Ended June 30, 2014

Finding No: 2014-03
Topic: Personnel Files
Federal Program: Child Nutrition Cluster; State Administrative Expenses for Child Nutrition; Adult Education - Basic Grants to States; Special Education Cluster; Career and Technical Education - Basic Grants to States; Education for Homeless Children and Youth
CFDA #: 10.555, 10.559; 10.560; 84.002; 84.027, 84.048; 84.196
Questioned Costs: Could not be determined

Condition Found:

During the review of the employees' files the auditors noted that the physical employees' files were not updated as to the actual monthly salary and applicable percentage of retirement withholding causing discrepancies between the salaries information included at the physical employees' files, payroll reports and payroll stub recalculations. Instead, they were further provided with information gathered from the payroll system (e.g. STAFF) where the PRDE electronically maintain the employees' information and changes in salary.

PRDE Response to Finding:

PRDE does not agree with finding as stated by auditor.

The matters identified by the auditors as missing documentation from the employees' files are considered isolated cases; nevertheless, personnel at the PRDE Human Resources Division will be trained by the Auxiliary Secretary of this Division in order to emphasize the importance of maintaining the required documentation in the personnel files. The completeness of the files will be verified as personnel transactions occur.

Contact person: Humberto Tapia, Human Resources Interim Deputy Secretary

Anticipated completion date: N/A

Puerto Rico Department of Education
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Schedule of Findings and Questioned Costs/Management's Response
Year Ended June 30, 2014

Finding No: 2014-04
Topic: Allowable Costs/Cost Principles
Level of Effort - Supplement Not Supplant
Federal Program: Career and Technical Education - Basic Grants to States
CFDA #: 84.048
Questioned Costs: \$93,306

Condition Found:

In seven (7) of fifty-seven (57) disbursements selected for testing in the above program, the auditors noted various exceptions.

- For one (1) instance; while determining whether the disbursement selected is related to an allowable activity of the program, the auditors noted that the disbursement relates to the purchase of four (4) air conditioning units. The supporting documentation of the transaction is not accompanied by any justification which detail the professional judgment used by the PRDE's personnel to determine that this disbursement is an allowable cost and that the program is not supplanting funds.
- For six (6) instances; while determining whether the disbursement selected is related to an allowable activity of the program, the auditors noted that the disbursements relates to transportation services charged to the program. The supporting documentation of these transactions does not include a full detail of the students attended; therefore, the auditors were unable to determine if the service was provided exclusively for the benefit of Career and Technical Education Program's students, per Section 135(a)-(c) of Perkins IV.

PRDE Response to Finding:

PRDE disagrees with this finding. The purchase of four air conditioning units was allocable, necessary and reasonable under Perkins and applicable EDGAR regulations.

Similarly, Perkins funds may be used to provide activities that support the Perkins program. *See Perkins, Sections 124; 135.* Here, the disbursements relating to transportation services were reasonable under Perkins as they were for the benefit of eligible CTE students.

Contact person: William Ruiz, Deputy Secretary SAEOT

Anticipated completion date: N/A

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Schedule of Findings and Questioned Costs/Management's Response
Year Ended June 30, 2014

Finding No: 2014-05
Topic: Cash Management
Federal Program: Various
CFDA #: Various
Questioned Costs: None

Condition Found:

During the course of the audit, the auditors found that in 7 out of 607 disbursements selected for testing, the time elapsing between the transfer of funds from the U.S. Treasury and PRDE final disbursement went beyond the required time frame of three business days of their availability.

PRDE Response to Finding:

PRDE considers these isolated cases. It should be considered that in four (4) out of the seven (7) disbursements mentioned in the finding, the number of days that elapsed between the transfer of funds from the U.S. Treasury and PRDE final disbursement did not exceed six (6) days (three days in excess). PRDE had worked towards complying with this federal requirement, and has accomplished a lot through the recent years.

PRDE is currently in the process of implementing the agreements established on the latest Treasury State Agreement (TSA) which became effective on July 1, 2014. This agreement took into consideration PRDE's request of turning all of its programs to the Reimbursement method. PRDE has designated a team, including personnel from the Finance and Budget Division to work on this implementation.

Contact person: Orlando Negrón, Finance Deputy Secretary
Judith Parrilla, Accounts Receivable's Supervisor

Anticipated completion date: June 30, 2015

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Schedule of Findings and Questioned Costs/Management's Response
Year Ended June 30, 2014

Finding No: 2014-06
Topic: Eligibility - Internal Control
Federal Program: Title I Grants to Local Educational Agencies
CFDA #: 84.010
Questioned Costs: None

Condition Found:

While gaining an understanding of the procedures followed by the above Program in determining the eligibility for the TAS, the auditors noted several matters.

PRDE Response to Finding:

PRDE does not agree with this finding as stated by the auditor. PRDE reviewed several of the instances included in the auditors' test and was able to conclude that the school eligibility to receive Title I funds was not affected. The documentation gathered on this regards was provided to the auditors, nevertheless it was not considered for the final report. PRDE is constantly reinforcing to its personnel the importance of the data gathered through the Socioeconomic which is later entered into SIE (Sistema Información Estudiantil). Training agendas and information material is available upon request.

Contact person: Vilma Aponte, Title I, Part A Program Coordinator

Anticipated completion date: N/A

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Schedule of Findings and Questioned Costs/Management's Response
Year Ended June 30, 2014

Finding No: 2014-07
Topic: Eligibility
Federal Program: Special Education Cluster
CFDA #: 84.027, 84.173
Questioned Costs: \$22,896

Condition Found:

In testing compliance with the requirements related to the eligibility for individuals of this program, the auditors selected a random sample of ninety three (93) participants and several instances of non-compliance were noted.

1. In forty-one (41) instances of ninety three (93) participants' files tested, the document SAEE-PEI "Programa Educativo Individualizado", was not properly signed by the School Director. However, no questioned costs have been determined since the forms were signed by the initial person authorized to perform this procedure.
2. In nine (9) instances of ninety three (93) participants' files tested, the document "Evaluación Inicial" was not completed during the required time frame. Therefore, the participant could have been receiving benefits under this program before completing this eligibility assessment.
3. In two (2) instances of ninety three (93) participants' files tested, the "Determinación de Elegibilidad (Inicial)" was not available for our examination.
4. In two (2) instances of ninety three (93) the participants' files tested, the "Referido de registro" and the "Referido para Evaluación Inicial" were not available for our examination. However, no questioned costs have been determined because the eligibility determination for these participants was performed.
5. In five (5) instances of ninety three (93) participants' files tested, the "Determinación de Elegibilidad" was not completed during the required time frame. Therefore, the participant could have been receiving benefits under this program before completing this eligibility assessment.
6. In eleven (11) instances of ninety three (93) the participants' files tested, the Analysis of Information Available (Re-evaluation) was not available for our examination.
7. In one (1) instance of ninety three (93) participants' files tested, we noted that the participant has not been enrolled for the academic year 2013-2014. Also, the "Forma de Egreso" (SAEE 12) was not properly completed.
8. In one (1) instance of ninety three (93) participants' files tested, the PEI, the "Informe de progreso" and the "Minutas de Revisión del Programa educativo individualizado" for the academic year 2013-2014 was not available for our examination.
9. In one (1) instance of ninety three (93) participants' files tested, the participant's file was not available for our examination.

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Schedule of Findings and Questioned Costs/Management's Response
Year Ended June 30, 2014

PRDE Response to Finding:

PRDE does not agree with this finding and reiterates our position that the file deficiencies identified do not impact student eligibility under the Individuals with Disabilities in Education Improvement Act (IDEA). As such, it is inappropriate to question costs for any of the reasons conditions under this finding.

With regard to conditions 2 and 5, the timeliness of an evaluation or determination does not make a student ineligible under the program. First, an administrative delay to complete a student's evaluation or eligibility determination does not prevent the student from being eligible to receive IDEA services. Such a finding suggests that an administrative delay to complete a student's evaluation or eligibility determination would prevent the student from being eligible to receive IDEA services—this certainly is not the case. Second, the concern that 'the participant could have been receiving benefits under this program before completing this eligibility assessment' is baseless. In order to be designated eligible to receive special education services, a student first must be evaluated, determined eligible, and have an Individual Education Program (IEP) developed. Only then may the student begin to receive services. There is no reason to assume, nor any evidence identified to suggest, that any of the students at issue received special education services before being determined eligible.

Many of the conditions identified under this finding mistakenly suggest the maintenance of certain documents in the student's file available at the school is required to establish student eligibility under IDEA—this is not accurate. The documents *Referido de registro* or *Referido para Evaluación Inicial* have no impact on a student's eligibility under IDEA. These are administrative documents that are completed prior to a student even being evaluated for eligibility. Additionally, whether a school director signs an IEP, another condition included in this finding questioning eligibility, does not impact a student's eligibility. While no costs are being questioned under these conditions (1 and 4), we disagree that these conditions support a finding of noncompliance with IDEA, EDGAR, or other statutory requirements.

In fact, the absence of any single document cited in the Finding (including those cited in conditions 3, 6, and 8) does not, in itself, make a student ineligible for IDEA services. The absence of the 'Analysis of Information Available (Re-evaluation)' (condition 6) is not a required document to demonstrate eligibility. In fact, in light of the age of students who participate in the Head Start program, such a document would not even be applicable in many cases. A re-evaluation is required once every three years unless the parties agree that a re-evaluation is not necessary.

In isolation, it is possible that the documents cited in conditions 3 and 8 could potentially impact the ability to evidence eligibility. As such, while PRDE disagrees these conditions alone as sufficient to question eligibility, PRDE is providing additional information herein to address these individual cases. For each case, this additional information demonstrates that the student's file, when reviewed in its entirety, evidences the student's eligibility.

Condition 3 questions the eligibility of two students under IDEA on the grounds that their files did not include evidence of the 'Determinación de Elegibilidad (Inicial)' form. Each case is addressed in turn. First, for student IRM, while the school file may not have contained a copy of the initial eligibility determination form, it did include a copy of the student's most recent triennial determination, dated March 19, 2014. Second, for student LDJO, this student was initially evaluated and determined eligible for IDEA services in 2004—eleven years ago. This student exited the program in August 2014, electing to enroll in night school. Both student files, when viewed in their entirety, evidence student eligibility.

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Condition 8 questions eligibility of one student under IDEA on the grounds that the student's file did not include a copy of the student's 2013-2014 IEP, the 'Informe de Progreso', or the 'Minutas de Revisión del PEI'. This is a unique case in which the file appears to have been damaged. While Student JRN's school file may not have included a copy of his 2013-2014 IEP, it did include a copy of his current IEP that was in effect at the time of the file review (2014-2015), as well as a prior IEP from 2010-2011. The 2014-2015 IEP was signed on May 21, 2014 and included a determination of eligibility based on a re-evaluation. Even if the file did not include a copy of the student's prior IEP, the student's file in its entirety supports the student's eligibility under IDEA.

Finally, condition 7 appears to question costs for services to a student, when the condition on its face notes that the student was not enrolled for the academic year 2013-2014. This condition questions the proper completion of the 'Forma de Egreso' document. This document is completed when a student exits the special education program for any number of reasons. When a student exits the program, regardless of the reason, they discontinue receiving services. The condition notes that the student was not enrolled for academic year 2013-2014 but nonetheless questions costs for services provided to that student.

With regard to condition 9, while the school in which a student is currently enrolled should be able to provide the file, the availability of a file at a school at a given time is not sufficient grounds to find a student ineligible under IDEA. A search in PRDE's special education information system evidences that the sole student at issue for this reason was determined eligible and had his initial IEP developed in April 2012. As such, the sole case identified in Condition 9 should not stand.

For all the reasons discussed above, PRDE disagrees with this finding.

Contact person: Maria Del Carmen Cruz, Monitoring and Compliance Unit Director for the
 Auxiliary Secretary for Special Education
 Carlos J. Rodriguez, Esq., Special Education Deputy Secretary

Anticipated completion date: N/A

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Schedule of Findings and Questioned Costs/Management's Response
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Finding No: 2014-08
Topic: Equipment and Real Property Management
Federal Program: Various
CFDA #: Various
Questioned Costs: Could not be determined

Condition Found:

While gaining an understanding of the state's policies and procedures in relation to property and equipment, the auditors noted that PRDE did not complete the annual physical inventory report and also noted deficiencies in PRDE monitoring controls and processes related to dispositions and transfers of assets.

PRDE Response to Finding:

PRDE commenced a process to amend its Property Management Regulation in conformity with anticipated OMB OMNI regulation. The amendment will be directed, mainly to increase the capitalization limit to \$5,000 and to perform physical inventories every two years. The estimated effective date of the new regulation should be on July 1, 2015. The new regulation will enhance the PRDE its processes related to the dispositions, transfer of assets and updating of its property accounting records.

Contact person: Orlando Negrón, Finance Deputy Secretary

Anticipated completion date: June 30, 2015

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Year Ended June 30, 2014

Finding No:	2014-09
Topic:	Equipment and Real Property Management
Federal Program:	Various
CFDA #:	Various
Questioned Costs:	\$213,535

Condition Found:

During this compliance requirement testing, the auditors selected 347 disbursements and several exceptions were noted.

PRDE Response to Finding:

Regarding the 51 instances where the disbursements selected, classified as acquisition of equipment could not be traced to the PRDE's property records due to an interface matter, PRDE has already established a corrective action which will assure inclusion of the capital outlays acquired, by placing as a default the automatic capitalization and updating of the property records for every disbursements classified as acquisition of equipment.

Regarding issues #1 and #2, related to the tagging of the property and the identification of the current custodian, PRDE is currently developing a new set of guidelines for its current processes which should be addressing these matters in order to improve efficiency and ultimately be able to comply with the required federal regulations.

Regarding issue #3, PRDE does not agree with the finding, neither with its questioned costs. As of the date of this report, PRDE has already corroborated the existence of 128 of the 144 instances mentioned in the finding (89%), and is still visiting the different location to identify the remaining. Evidence of the existence of this property is kept at the Property Division Office for further review.

Contact person: Orlando Negrón, Finance Deputy Secretary

Anticipated completion date: June 30, 2015

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Schedule of Findings and Questioned Costs/Management's Response
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Finding No: 2014-10
Topic: Matching, Level of Effort, Earmarking
Federal Program: Twenty-First Century Community Learning Centers
CFDA #: 84.287
Questioned Costs: Could not be determined

Condition Found:

In order to test the matching requirement, the auditors requested the matching calculation for three sub-recipients for which it was required. However, the matching contribution was not available for their examination for any of the projects selected.

PRDE Response to Finding:

PRDE does not agree with this finding as stated by the auditor. PRDE has already implemented the corrective action to address the matter identified by the auditors. The Fiscal Monitoring Instrument used at the Program was updated to include a set of new criteria that would guide the monitors to address this compliance requirement. Also, PRDE is currently updating its 21st CCLC program's procedures manual to establish the specific matching requirements it would be imposing on its subrecipients.

Contact person: Ingrid Mercado, 21st CCLC Program Coordinator

Anticipated completion date: N/A

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Schedule of Findings and Questioned Costs/Management's Response
Year Ended June 30, 2014

Finding No: 2014-11
Topic: Reporting
Federal Program: State Library Program
CFDA #: 45.310
Questioned Costs: None

Condition Found:

During the audit compliance procedures, the auditors noticed that the State Library Program is not filing the Quarterly Grant Accrual Reports, as required by the Institute of Museum and Library Services (IMLS). Also, the auditors noticed that State Program Report (SPR) for grant award 2013-2014 was submitted late.

PRDE Response to Finding:

PRDE's State Library Program will update its policies and procedures to include the filing of the Quarterly Grant Accrual Reports, as required by the Institute of Museum and Library Services (IMLS).

The Program filed the State Program Report (SPR) for grant award 2013-2014 on January 16, 2015, due to an unenforceable situation, and during the period from the due date, December 31, 2014 and submission date; there was constant communications with the Program Official from USDE. The Program will take the proper actions to prevent the recurrence of this situation.

Contact person: Miguel A. Hernández, Director, State Library Program

Anticipated completion date: June 30, 2015

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Finding No: 2014-12
Topic: Reporting
Federal Program: Student Financial Assistance Cluster
CFDA #: 84.007, 84.033, 84.063
Questioned Costs: None

Condition Found:

While performing the audit procedures over reporting compliance requirement, the auditors noticed that the submission of the Single Audit 2012-2013 report (compliance audit) was submitted after the required deadline of March 31, 2014 and no waiver was requested to the USDE; therefore, report was submitted late.

PRDE Response to Finding:

PRDE's management will continue to enforce and strengthen its internal control procedures for the preparation, review and submission of the required federal reports to ascertain compliance and timely filing.

Contact person: Carmen Z. Ramirez, Director, Technical Education Program
William Ruiz, Deputy Secretary SAEOT

Anticipated completion date: June 30, 2015

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Schedule of Findings and Questioned Costs/Management's Response
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Finding No: 2014-13
Topic: Reporting
Federal Program: Adult Education- Basic Grants to States
CFDA #: 84.002
Questioned Costs: None

Condition Found:

During the audit compliance procedures, the auditors noticed that the Adult Education Program is not filing the Federal Funding Accountability and Transparency Act report for the sub-recipients with \$25,000, as required.

PRDE Response to Finding:

PRDE's Adult Education Program established a Monitoring Unit and developed a Circular Letter and a Monitoring Manual. Trainings have been provided. The Program will continue to enforce and strengthen its internal control procedures for the preparation, review and submission of the required federal reports to ascertain compliance and timely filing.

Contact person: Carmen B. Torres, Administration Director, SASEC
Damaris E. Perez, Deputy Secretary, SASEC

Anticipated completion date: June 30, 2015

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Schedule of Findings and Questioned Costs/Management's Response
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Finding No: 2014-14
Topic: Reporting
Federal Program: Twenty-First Century Community Learning Centers
CFDA #: 84.287
Questioned Costs: \$183,709

Condition Found:

In order to test the reporting requirement, we verified the completeness of the information included in the Federal Funding Accountability and Transparency Act Report ("FFATA") noting that one sub-recipient was not reported since it does not have a DUNS number.

PRDE Response to Finding:

PRDE does not agree with finding as stated by auditor.

PRDE made a thorough analysis of all programmatic compliance requirements as well as cost analysis, of all proposals received during the period 2013-2014, including this "one sub recipient". The evaluation performed by the program was in accordance with 21st non regulatory guidance. Therefore we do not agree with the questioned cost.

However, PRDE acknowledges the importance of this process and immediately established a procedure to address DUNS number registration. PRDE has developed a process of providing guidance to all sub recipients in order for them to obtain the required DUNS number in a timely manner. PRDE is currently updating its 21st CCLC program's procedures manual to establish that submission of this data will be required prior to approving the contracting of a sub-recipient for the program.

Contact person: Ingrid Mercado, 21st CCLC Program Coordinator

Anticipated completion date: N/A

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Schedule of Findings and Questioned Costs/Management's Response
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Finding No: 2014-15
Topic: Reporting
Federal Program: Student Financial Assistance Cluster
CFDA #: 84.007, 84.033, 84.063
Questioned Costs: None

Condition Found:

During the compliance testing with this requirement, the auditors selected fifty-five (55) participants. In one (1) case, PRDE failed to submit disbursement records to the Common Origination and Disbursement (COD) system within fifteen (15) days after making the PELL disbursement.

PRDE Response to Finding:

PRDE does not agree with this finding as stated by the auditors. This is an isolated case; however, PRDE continues its efforts on improving its internal controls to ensure timely filing in the COD system. PRDE's Technical Education Program is working on the implementation of an automated system that will allow for easier tracking of disbursement and enhanced controls to ensure timely filing.

Contact person: Carmen Z. Ramirez, Director, Technical Education Program
William Ruiz, Deputy Secretary SAEOT

Anticipated completion date: June 30, 2015

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Finding No: 2014-16
Topic: Sub-recipient Monitoring
Federal Program: Adult Education- Basic Grants to States
CFDA #: 84.002
Questioned Costs: Could not be determined

Condition Found:

To test compliance with this requirement, the auditors selected five (5) sub-recipients and noted the following instances of non-compliance:

1. In three (3) of five (5) sub-recipients' files examined or (60%), there was no evidence of sub-recipient corrective action, and additionally PRDE failed to take action in response of the monitoring findings no corrected by the subgrantee.
2. In five (5) of five (5) sub-recipients' files examined or (100%), the single audit or corresponding audited financial statements were not included on the sub-recipients' file; therefore, were not available for the auditors examination.

PRDE Response to Finding:

PRDE's Adult Education Program established a Monitoring Unit and developed a Circular Letter, a Monitoring Manual and a Fiscal Manual. Trainings have been provided. The Program will continue to enforce and strengthen its internal control procedures to prevent the recurrence of the instances reported and take timely action in response to monitoring findings by requiring the sub-recipients to take immediate corrective actions on deficiencies identified.

Contact person: Carmen B. Torres, Administration Director, SASEC
Damaris E. Perez, Deputy Secretary, SASEC

Anticipated completion date: June 30, 2015

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Finding No: 2014-17
Topic: Special Tests and Provisions - Accountability for United States
Department of Agriculture (USDA)-Donated Foods
Federal Program: Child Nutrition Cluster
CFDA #: 10.555, 10.559
Questioned Costs: None

Condition Found:

During the internal control and compliance testing of accountability of donated food requirement, the auditors performed on-site visits and 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 on-site visits it was found that the warehouse's personnel performed the physical inventory procedures at the end of each month accordingly to the *Manual de Sistemas y Procedimientos de la Autoridad Escolar de Alimentos Sección de Almacenamiento y Distribución*, except for the physical inventory for the month ended June 30, 2014 of one warehouse. Therefore, the auditors considered this matter as an exception within its established internal controls over compliance as documented in the *Manual*.

PRDE Response to Finding:

PRDE does not agree with this finding as stated by the auditors. This is an isolated, immaterial and nonrecurring case, and PRDE continues its efforts on improving the internal control. The inventory count procedures are performed at the last business day of the month, as required on the *Manual de Sistemas y Procedimientos de la Autoridad Escolar de Alimentos Sección de Almacenamiento y Distribución*, except for this isolated case. Furthermore, the 7 CFR 250.14 (e) establishes 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. To ensure compliance with the accounting and handling of donated food, we recommend the following:*

- 1. Perform the annual physical inventory and reconcile it with inventory records. Differences, if any, should be investigated and adjusted promptly;*
- 2. Enforce policies that contribute to the maintenance of accurate inventory records. Monitor to ensure accurate and complete records are maintained with respect to the receipt, distribution and use of the donated food inventory.*

As it was stated in the finding, the auditors found that the warehouse's personnel performed the physical inventory procedures at the end of each month accordingly to the Manual; except for the physical inventory for one month of one warehouse. This does not impair PRDE's capacity to perform the annual physical inventory and reconcile it with the inventory records. Any difference could have been detected on the following monthly inventory, and adjusted promptly, as required by the federal regulation.

Contact person: Lourdes Velázquez, Director, School Food Authority
Minerva Ortiz, Director, Child Nutrition Agency

Anticipated completion date: June 30, 2015

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Finding No: 2014-18
Topic: Special Tests and Provisions – Disbursement to or on behalf of students
Federal Program: Student Financial Assistance Cluster
CFDA #: 84.007, 84.033, 84.063
Questioned Costs: None

Condition Found:

During the compliance testing with this requirement, the auditors selected a sample of thirty six (36) students. For all cases examined, the auditors noted that PRDE failed to make the Federal Work Study (“FWS”) disbursement at least once per month after the students completed the working hours. Instead, the payment corresponded to three (3) or more months of payroll.

PRDE Response to Finding:

PRDE is developing an enhanced system for processing FWS payments to students in a timely manner. The Program is working on the implementation of an automated system that will streamline the student's registration process and payments.

Contact person: Carmen Z. Ramirez, Director, Technical Education Program
William Ruiz, Deputy Secretary SAEOT

Anticipated completion date: June 30, 2015

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Finding No: 2014-19
Topic: Special Tests and Provisions – Recordkeeping
Federal Program: Student Financial Assistance Cluster
CFDA #: 84.007, 84.033, 84.063
Questioned Costs: None

Condition Found:

During the audit procedures, the auditors noted that PRDE does not have an adequate recordkeeping system that allows an easy audit trail of all transactions involving the processing of financial aid.

PRDE Response to Finding:

PRDE's Technical Education Program is working on the implementation of an automated system that will provide an audit trail of sources and uses of federal funds.

Contact person: Carmen Z. Ramirez, Director, Technical Education Program
William Ruiz, Deputy Secretary SAEOT

Anticipated completion date: June 30, 2015

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Schedule of Findings and Questioned Costs/Management's Response
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Finding No: 2014-20
Topic: Special Tests and Provisions - Highly Qualified Teachers and Paraprofessionals
Federal Program: Title I Grants to Local Educational Agencies
CFDA #: 84.010
Questioned Costs: Could not be determined

Condition Found:

During the year ended June 30, 2014, the Puerto Rico Department of Education had a total of 83 Targeted Assistance Schools (TAS). To test compliance with the eligibility requirements for this program, the auditors randomly selected 10 TAS to visit. To test compliance with Highly Qualified Teachers and Paraprofessionals requirements, the auditors requested to the school directors the files for the HQT and HQP selected for examination, and noticed some exceptions.

- In four (4) of forty-two (42) teachers selected, we were unable to complete our testing procedures about HQT compliance requirements since the related school was closed for the academic year 2014-2015 and we were not provided with the information of the teachers for our examination.
- In two (2) of forty-two (42) teachers selected, we were unable to conclude about HQT compliance requirements during academic year 2013-2014 since during our visit at the school we were not provided with the information of the teachers for our examination.
- In one (1) of ten (10) schools visited, the Director confirmed us that all teachers were highly qualified, however, PRDE's census as of June 30, 2014 which was delivered to us indicated that there are none HQT at this school. Therefore, we were unable to conclude if school Director made the corresponding notifications to parents/in-charge of students that took classes for more than 4 weeks with a non-highly qualified teacher.

PRDE Response to Finding:

PRDE does not agree with this finding.

Regarding the first bullet point, PRDE complied with Circular Letter 16 2011-2012 and Title I, Part A HQT requirements. PRDE agrees that, as per the Circular, the school director is responsible for the assessment of HQT, for gathering and sending the documents to the Central office, and for keeping this evidence at the School. However, since the identified school was closed for the 2014-2015 academic year, the school director was not available at the time of the auditors' request to provide the documentation. PRDE's Central Level provided the HQT information. It was informed that all four teachers are HQT and one of the four retired during the 2013-2014 school year.

Regarding the second bullet point, PRDE's Central Office has notified the auditors that one of the two teachers referenced is currently serving at a different school for the 2014-2014 school year. Therefore the school where she served during the 2013-2014 school year did not have the teacher's file. Instead, it was located at the new school. PRDE has informed the auditors that the teacher is HQT. Meanwhile, the second teacher referenced in the finding is not teaching at PRDE during this school year, however, PRDE has informed the auditors that the teacher was HQT during the 2013-2014 school year.

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Regarding the third bullet point, the auditors were unable to conclude if the school director made the corresponding notifications. PRDE has taken corrective actions to ensure the accuracy of its HQT census and has provided recent trainings. The list is readily available on PRDE's website and can be provided upon any request.

Contact person: Vilma Aponte, Title I, Part A Program Coordinator
Clarimar Cruz, Director, Instituto para el Desarrollo Profesional del
Maestro (InDePM)

Anticipated completion date: N/A

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Finding No: 2014-21
Topic: Special Tests and Provisions - Comparability
Federal Program: Title I Grants to Local Educational Agencies
CFDA #: 84.010
Questioned Costs: Could not be determined

Condition Found:

While reviewing whether the Entity has developed procedures for compliance with the comparability requirement and that they maintain records updated at least biennially documenting its compliance with the comparability requirement, the auditors noted that PRDE did not complete the comparability calculations. Therefore, any needed movement of personnel among schools was not performed.

PRDE Response to Finding:

PRDE does not agree with this finding as stated by auditor.

PRDE completed a preliminary calculation for FY 2013-2014, the only pending items were the required movement of staff based on these calculations. For FY 2014-2015 PRDE amended its policies and procedures for the comparability requirement and complied with the comparability calculation. PRDE will continue to enforce and strengthen its procedures and comply with the comparability requirement.

Contact person: CPA Lilia Torres, Under Secretary of Administration

Anticipated completion date: N/A

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Finding No: 2014-22
Topic: Special Test and Provisions - Schoolwide
Federal Program: Title I Grants to Local Educational Agencies; Improving Teacher Quality
State Grants
CFDA #: 84.010; 84.367
Questioned Costs: \$102,795

Condition Found:

While evaluating the eligibility of the schools participating under the Schoolwide program, the auditors noted that two (2) schools determined eligible by the PRDE did not comply with the poverty level requirement of forty (40) percent or above.

PRDE Response to Finding:

PRDE does not agree with this finding as stated by the auditor. These schools complied with the requirements of the Comprehensive Educational Plan and submit them timely, therefore were eligible to receive Title I Funds. Further, funds were used for Title I purposes therefore we do not agree with the questioned costs either.

Contact person: Vilma Aponte, Title I, Part A Program Coordinator

Anticipated completion date: N/A

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Summary Schedule of Prior Year Findings
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Finding Number	Finding (Condition Found)	CFDA Number	Questioned Cost	Status	Management Corrective Action Plan	Anticipated Completion Date	Responsible Officer	Contact Number
2013-01	While testing the Entity's account receivables, the auditors noted that accounts receivable arise from overpayments or merchandise returns to suppliers, improper salary payments, payments to employees without accumulated vacations or sick leave balances, and others. Accordingly, expenditures reported in the federal financial assistance programs include unallowable costs for those amounts uncollected at the end of each year.	Various	\$ 21,808	In progress	The Finance Secretariat continues the collection efforts for the questionable costs. In order to expedite the collections for the overpayments the Payroll Division implemented a procedure to deduct or withhold the amounts on the current payment. To prevent future overpayments amounts, the Human Resources Secretariat will also update their policies and procedures to expedite the process of the personnel transactions notifications. Training will be provided to the personnel.	February 27, 2015	Orlando Negron, Finance Deputy Secretary, Judith Parrilla, Accounts Receivable Supervisor, and Julia Nazario, Human Resources Deputy Secretary	787-773-2647
2013-02	When assessing the information technology area at PRDE, the auditors noted certain security risks matters.	All federal financial assistance programs	Could not be determined	In progress	The Oficina de Sistemas de Informacion y Apoyo Tecnico a la Docencia (OSIATD) will review, update and enforce their policies and procedures. Training will be provided to the personnel.	February 27, 2015	Maribel Picó, PRDE's CIO	787-773-2632
2013-03	During the review of personnel files, several instances were noted, such as missing files and discrepancies between the salaries information included at the employees' files (e.g. monthly salary and percentage of retirement), payroll reports and payroll stub recalculations.	Various	Undetermined	In progress	Six out of the seven missing files were obtained and are available for the auditors review. The missing file will be located at the Humacao Region. The manual for the contracting process of professional services was revised in March 2014 to include the responsibilities of the different parties involved in the contracting process to maintain all required documentation as part of the contract file. The documentation regarding changes in salary of all the personnel transaction is documented in the system.	February 27, 2015	Julia Nazario, Auxiliary Secretary, Human Resources Secretariat	
2013-04	In testing compliance and internal control over allowability, procurement, and suspension and department requirements, the auditors selected 837 disbursements from various programs and several exceptions were noted.	Various	\$ 694,569	In progress	PRDE continues gathering the remaining documents and will be available for examination.	February 27, 2015	Orlando Negron, Finance Deputy Secretary, Carmen Q. Rodriguez, Supervisor at PRDE Finance Division, Norma Rolon, Procurement Office, Carlos Rodriguez, Special Education Director, and Enid Díaz, Special Education Administrative Director	787-773-2612

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Summary Schedule of Prior Year Findings
Year Ended June 30, 2014

Finding Number	Finding (Condition Found)	CFDA Number	Questioned Cost	Status	Management Corrective Action Plan	Anticipated Completion Date	Responsible Officer	Contact Number	
2013-05	During the course of the audit, the auditors found that the major activities related to the petition of funds are performed by the same person and are not periodically reviewed or monitored by another person.	All federal financial assistance programs	None	Completed	During the cash management procedures, there are compensating controls to ensure a proper segregation of duties within the activities related to the petition of funds. An automated process generated from SIFDE establishes the grant amounts to be requested. The information is registered in the Web Page G-5 Program by the Auxiliary Director. Once the funds are received, BGF issues a credit memo. The voucher from SIFDE, the G-5 petition and the credit memo are forwarded to the Collector. At this point, a three way match review process is performed by the Collector before registering the funds received in SIFDE.	N/A	Orlando Negrón, Auxiliary Secretary of Finance Division	787-773-2683	
2013-06	During the course of the audit, the auditors found that in 13 out of 837 disbursements selected for testing, the time elapsing between the transfer of funds from the U.S. Treasury and PRDE final disbursement went beyond the required time frame of three business days after their availability.	Various	None	Completed	On January 2014, the PRDE and the PR's Treasury Department signed an agreement to establish that draw-downs will be requested on a reimbursement basis, therefore after disbursement checks are issued by PR's Treasury Department.	January 31, 2014	Orlando Negrón, Auxiliary Secretary of Finance Division	787-773-2683	
2013-07	In order to test the eligibility requirements, the auditors selected 58 participants' files and noted several instances of non-compliance.	84.002	\$	5,898	Completed	The determinations were completed. A Circular Letter was published reinforcing the procedures and eligibility requirements. Training was provided to the personnel.	N/A	Anayantzie Altieri, Adult Education Program Director	787-773-3474
2013-08	To test compliance with the eligibility requirements for this program, the auditors randomly selected 10 TAS and after performing the eligibility test on each school they noticed that there was no sufficient information to corroborate that schools were eligible to receive Title I funds based on socioeconomic study performed by the PRDE. When performing the eligibility test for both schools' and students' eligibility they could not determine their eligibility based on the information gathered.	84.010; 84.389	None	Completed	PRDE held a series of trainings for school directors on TAS eligibility requirements under the federal program regulations. Copies of the training materials were also provided to the directors so they could take them back to their schools and share with the appropriate staff. An email was sent to USDE with this information.	N/A	Vilma Aponte, Title I, Part A Program Coordinator	787-773-2056	
2013-09	In testing compliance with the requirements related to the eligibility for individuals of this program, the auditors selected a random sample of 87 participants and several instances of non-compliance were noted.	84.027; 84.173	\$	75,021	In progress	PRDE will gather the required documents to prove that the eligibility requirements were met, and will be available for examination. The monitoring unit continues to monitor the compliance with the existing policies and procedures. The Program follows OSEP guidance and any identified noncompliance can be corrected within one year from identification (OSEP 09-02).	February 27, 2015	Carlos Rodriguez, Special Education Director, María del Carmen Cruz Dávila, Monitoring and Compliance Unit Director for the Auxiliary Secretary for Special Education / Enid Díaz, Special Education Administrative Director	

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Finding Number	Finding (Condition Found)	CFDA Number	Questioned Cost	Status	Management Corrective Action Plan	Anticipated Completion Date	Responsible Officer	Contact Number
2013-10	The auditors found several deficiencies while testing eligibility of the participants for the Even Start Program.	84.213	None	Completed	USDE does not sustain the auditors finding.	N/A	María del C. Martínez, Even Start Program Coordinator	787-773-2043
2013-11	While testing the schools eligibility for SIG, the auditors noted that one school was selected although as per the results of the schools ranking for eligibility, there were other two schools that may have been selected.	84.377; 84.388	\$ 296,632	Completed	For the two schools that did not receive SIG funding, PRDE determined that neither school could effectively implement the increased learning time requirement under the transformation and turnaround models (Certifications from the Regions were provided). Since neither school had the capacity to implement the models, PRDE funded the Tier I school that showed such capacity. An email was sent to USDE with this information.	N/A	Lisandra Fradera, School Improvement Grant Program Director	
2013-12	While gaining an understanding of the state's policies and procedures in relation to property and equipment, the auditors noted that PRDE did not complete the annual physical inventory report and also noted deficiencies in PRDE monitoring controls and processes related to dispositions and transfers of assets.	Various	Could not be determined	In progress	PRDE is in the process of reviewing the policies and procedures related to the accounting and management of its fixed assets. This will help in the establishment of a policy consistent with federal grant regulation.	June 30, 2015	Orlando Negrón, Auxiliary Secretary of Finance Division	787-773-2683
2013-13	During this compliance requirement testing, the auditors selected 96 disbursements and several exceptions were noted.	Various	\$ 440,328	In progress	PRDE continues gathering the required documents and will be available for examination. The Finance Deputy Secretariat will update their fixed assets policies and procedures. Training will be provided to the personnel.	June 30, 2015	Orlando Negrón, Finance Deputy Secretary / Nilda Morales, Property Division Director	787-773-2679
2013-14	The auditors tested the matching requirements under the program; requested the State matching calculation and evidence of contributions and received it without exceptions. However, the auditors requested the evidence and calculations of the in-kind matching portion and it was not available for examination for any of the projects selected, even though the entity received in-kind contributions during the year.	84.002	None	Completed	The Program developed a new Manual to address the documentation requirements related to the in-kind matching. Training was provided to the personnel.	N/A	Anayantzie Altieri, Adult Education Program Director	787-773-3474

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Finding Number	Finding (Condition Found)	CFDA Number	Questioned Cost	Status	Management Corrective Action Plan	Anticipated Completion Date	Responsible Officer	Contact Number
2013-15	In testing compliance over the formal bidding process, the auditors selected 5 bids and noted that in 3 of them some of the required evidence was not included in the files.	All federal financial assistance programs	None	Completed	As of September 2014, the Junta de Subasta Central sends a written notice to the Junta de Revision Administrativa inquiring as to whether any claims for reconsideration have been filed. This written documentation, which is maintained in the bid's file, demonstrates that the Junta de Subasta Central is performing the necessary verification. An informal discussions in order to ensure that the appropriate corrective actions were undertaken was performed. An email was sent to USDE with this information.	N/A	Eduardo Rivera Cruz, Director Procurement and Bidding Board	
2013-16	In testing compliance and internal control over the procurement and suspension and debarment requirements, the auditors selected 837 disbursements from various programs and several exceptions were noted.	Various	\$ 480,352.00	In progress	PRDE continues gathering the required documents and will be available for examination. The Procurement Office will review and enforce their current policies and procedures. Training will be provided to the personnel.	March 31, 2015	Norma Rolón, Procurement Division Director	
2013-17	During our audit compliance procedures, we noted the following exceptions regarding the filing of the Federal Funding Accountability and Transparency Act report for the sub-recipients receiving federal funds equal to or in excess of \$25,000: <ul style="list-style-type: none"> For the Twenty-First Century program, reports corresponding to two sub-recipients were not filed. Also, all other submitted reports (5 in total), were filed late. For the Adult Education program, no reports were prepared although is a requirement under this program. 	84.002; 84.287	None	In progress	The 21st Century program submitted timely the report for FY 2014 and provided guidance to all the sub recipients and personnel responsible for submitting the FFATA report. The requirement is included within the 21st Century program SOP. The Adult Education program provided guidance to all the sub recipients and personnel responsible for submitting the FFATA report and will be submitting the FY 2015 report, and compiling the information from previous years.	February 27, 2015	Ingrid Mercado, Program Coordinator, Anayantzie Altieri, Adult Education Program Director	787-773-2376 787-773-3474
2013-18	During the compliance test for reporting, the auditors identified that 2 of 86 participants selected, the PRDE failed to submit disbursement records to the COD system no later than 30 days after making the Pell Disbursement.	4.007; 84.033; 84.00	None	In progress	Disbursements are now being processed directly through SIFDE without the need to use the "cuenta de la comunidad" (accelerates payment process). The Program is also working with OSIATD for the approval of an automated system that will allow the Institutes to enter the student information, for it to be sent directly to the USDE, streamlining the process to register students.	June 30, 2015	Carmen Z. Ramirez, Technical Education Program Director	

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Finding Number	Finding (Condition Found)	CFDA Number	Questioned Cost	Status	Management Corrective Action Plan	Anticipated Completion Date	Responsible Officer	Contact Number
2013-19	While testing the high school graduation rate, we noticed that PRDE failed to timely submit the N040 report. ED Facts Partner Support Center's (ED Facts) calendar indicates that the report must be submitted on or before January 31, 2013, however it was submitted on May 6, 2013.	84.010; 84.089	None	Completed	The report was not required for FY 2012-2013.	N/A	Ana M. Rosado, Deputy Secretary Planning and Development / Vilma Aponte, Title I, Part A Program Coordinator	787-773-2056
2013-20	During the auditors' tests of compliance with the sub-recipient monitoring requirements, they selected five (5) schools under the School Food Authority (SFA) and two (2) independent SFA's and noted several instances of non-compliance.	10.555; 10.559	Could not be determined	Completed	The schools submitted their CAP's and complied with the monitoring requirements. The Agency also provided a final electronic report of the final handwritten report that was submitted timely. There is no federal or state regulation requiring the report to be available electronically. During FY 2014, the Agency hired 12 monitors, for a total of 14 monitors, and training was provided to all of them.	N/A	Minerva Ortiz Alvarado, Director of the Child Nutrition State Agency	
2013-21	During the fiscal year ended June 30, 2013, the Adult Education Program monitored a total of seven (7) sub-recipients. To test compliance with this requirement, the auditors selected five (5) sub-recipients. The auditors noted in one (1) of the five (5) monitoring files examined, that PRDE found that the sub-recipient did not comply with one of the program requirements. However, there is no evidence in the sub-recipient records as of the effects that this non-compliance should have on the sub-grantee as to the amount of funds awarded and the possibility to return a portion of those.	84.002	Could not be determined	Completed	A new monitoring Manual was developed with procedures for the monitoring process, including follow-up on corrective action plans.	N/A	Anayantzic Altieri, Adult Education Program Director	787-773-3474

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Finding Number	Finding (Condition Found)	CFDA Number	Questioned Cost	Status	Management Corrective Action Plan	Anticipated Completion Date	Responsible Officer	Contact Number
2013-22	<p>During the fiscal year ended June 30, 2013, the Twenty-first Century Community Learning Centers Program monitored a total of thirty-six (36) sub-recipients. To test compliance with this requirement, we selected five (5) sub-recipients and noted the following exception:</p> <p>1. In one (1) instance, the monitoring process reflected instances of non-compliance. The sub-recipient submitted a corrective action plan that was not approved. However, there's no evidence about proper follow up on the status of the revised corrective action plan.</p>	84.287	Could not be determined	Completed	PRDE issued an assurance form to its 21st CCLC sub recipients to establish greater accountability for the reporting requirements. Each sub recipient is required to submit this form as a condition of contract approval and funding. PRDE has also, strengthened its monitoring procedures to ensure sub recipient compliance with its contract conditions and assurance form. PRDE's 21st CCLC program staff is responsible for monitoring of 21st CCLC sub grantees. The program staff is conducting monitoring through desk reviews and onsite visits. The 21st CCLC Program Office has identified a staff member to work exclusively on sub recipient monitoring activities. This staff member is responsible for ensuring that all necessary and appropriate follow up on sub recipient's corrective action plans is timely carried out. An email was sent to USDE with this information.	N/A	Ingrid Mercado, Program Coordinator	787-773-2376
2013-23	When evaluating the criteria and methodology used in maintaining accurate and complete records with respect to the receipt, distribution/use, and inventory of donated foods the auditors. noted several instances of non-compliance.	10.555, 10.559	Could not be determined	Completed	A written communication was sent to the two warehouse managers, in order to reinforce their job duties and requirements as established on the procedures manual "Manual de Sistemas y Procedimientos de la Autoridad Escolar de Alimentos: Seccion de Almacenamiento y Distribucion".	N/A	Lourdes Velázquez Rivera, PRDE School Food Authority Director	
2013-24	During the compliance test for Special Test - Return of Title IV Funds, the auditors identified that 1 of 12 drops/withdrawals selected, the "Política de Reembolso" worksheet was not prepared.	4.007; 84.033; 84.00	None	In progress	The Program requested a waiver from the USDE, which was approved. All worksheets for 2012-2013 have been completed. At the moment, the Program is working with the 2013-2014 worksheets for proper reimbursements to be processed.	June 30, 2015	Carmen Z. Ramírez, Technical Education Program Director	
2013-25	During the compliance testing for this requirement, the auditors noticed that PRDE did not award FWS funds to eligible students with financial need for one (1) of its Institutions (e.g. ITEC - Ponce).	4.007; 84.033; 84.00	None	Completed	The Program has recruited personnel (PSC & Transitory) to work with the financial aid office of the Ponce Institute and be able to process all requests for FWS.	N/A	Carmen Z. Ramírez, Technical Education Program Director	

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Finding Number	Finding (Condition Found)	CFDA Number	Questioned Cost	Status	Management Corrective Action Plan	Anticipated Completion Date	Responsible Officer	Contact Number
2013-26	During the compliance testing for this requirement, the auditors selected a sample of thirty (30) students. In twenty-three (23) instances, the auditors noted that PRDE failed to make the LWS disbursement at least once per month after the students completed the working hours. Instead, the payment corresponded to two (2) months of payroll.	4.007; 84.033; 84.00	None	In progress	Disbursements are now being processed directly through SIFDE without the need to use the "cuenta de la comunidad" (accelerates payment process). The Program is also working with OSIAITD for the approval of an automated system that will allow the Institutes to enter the student information, for it to be sent directly to the USDE, streamlining the process to register students.	June 30, 2015	Carmen Z. Ramírez, Technical Education Program Director	
2013-27	During the audit procedures, the auditors noted several conditions that made them conclude that PRDE does not have an adequate recordkeeping system that allows an easy audit trail of all transactions involving the processing of financial aid.	4.007; 84.033; 84.00	None	In progress	The proposed new system will assist in the documentation of student transactions.	June 30, 2015	Carmen Z. Ramírez, Technical Education Program Director	
2013-28	To test compliance with Highly Qualified Teachers and Paraprofessionals requirements, the auditors requested to the School Directors a list of HQT and HQP and tests at three different schools could not be completed due to lack of some required documentation.	84.010; 84.389	Could not be determined	In progress	PRDE publishes a memorandum each semester to guide and inform on the requirements of the Progress Report and Census of the Highly Qualified Teachers (HQT), as established on the No Child Left Behind Act (NCLB). Additional trainings will be provided on this matter. Furthermore, PRDE has available a list of HQT.	March 31, 2015	Clarimar Cruz, INDEPM Director / Vilma Aponte, Title I, Part A Program Coordinator	787-773-2056
2013-29	During the course of the audit, the auditors noted that PRDE did not complete the comparability calculations.	84.010; 84.389	None	In progress	For FY 2012-2013, there was a preliminary calculation available at the time of the audit report. The only pending items were the adjustments needed (movement of personnel) as a result of the calculations. PRDE is in the process of evaluating a modification in the measure established to comply with the comparability requirement.	February 27, 2015	Lilia Torres Torres, Undersecretary of Administrative Affairs	
2013-30	During the course of the audit, the auditors selected various disbursements and in 7 out of 66 no documentation was provided for examination.	4.010; 84.389; 84.30	None	In progress	The Office of Federal Affairs will review and enforce their current policies and procedures. Training will be provided to the personnel.	April 30, 2015	Vilma Aponte, Title I, Part A Program Coordinator / Sylvia Batiz	787-773-2056
2013-31	To determine compliance with the requirements related to the special conditions, the auditors reviewed some related documentation and observed that PRDE had not fully complied with these requirements.	Various	None	In progress	There is only two recommendations pending and an action plan is in progress.	September 30, 2015	Lilia Torres Torres, Undersecretary of Administrative Affairs	

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Profile of Independent Public Accountants
Year Ended June 30, 2014

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The audit was performed between July 2014 through January 2015, at PRDE's, facilities.