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**Puerto Rico Department of Education  
Needs Major Improvements in Its Administration of  
the Even Start Program**

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**FINAL AUDIT REPORT**



**Audit Control Number ED-OIG/A01-90006  
September 2000**

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U.S. Department of Education  
Office of Inspector General  
Boston, MA

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UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

ACN: ED/OIG- A01-90006

SEP 27 2000

Honorable Victor Fajardo  
Secretary of Education  
Puerto Rico Department of Education  
P.O. Box 190759  
San Juan, Puerto Rico 00919-0759

Dear Secretary Fajardo:

Enclosed is our report entitled "Puerto Rico Department of Education Needs Major Improvements in Its Administration of the Even Start Program" (ED-OIG/A01-90006). The report incorporates the comments you provided in response to the draft audit report. If you have any additional comments or information you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department official, who will consider them before taking Departmental action on the audit:

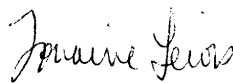
Michael P. Cohen  
Assistant Secretary for Elementary and Secondary Education  
U.S. Department of Education  
400 Maryland Ave., SW Room 4004  
Washington, D.C. 20202

The Office of Management and Budget directs Federal agencies to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

In accordance with the Freedom of Information Act (Public Law 90-23), reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemption in the Act.

Please refer to the above audit control number in all correspondence relating to this report.

Sincerely,

  
Lorraine Lewis

Enclosure

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202-1510

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### Notice

**Statements that financial and/or managerial practices need improvement or recommendations that costs questioned be refunded or unsupported costs be adequately supported, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations on these matters will be made by appropriate U.S. Department of Education officials. In accordance with the Freedom on Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.**

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**Exhibit C:** *PRDE's response to the Draft Audit Report (without attachments)*

## **Executive Summary**

Puerto Rico Department of Education's (PRDE) administration of the Even Start program severely delayed the flow of Federal funds to subrecipients. In addition, PRDE lacked adequate cash management practices and effective internal controls to properly administer the program. PRDE's Single Audit reports for the years ended June 30, 1998 and June 30, 1999 have not been submitted. Furthermore, similar cash management issues have been repeatedly reported in PRDE's Single Audit reports since 1991.

PRDE severely delayed the flow of Federal funds to Even Start subrecipients because it did not ensure contracts and budget assignments were signed prior to the beginning of the award period. Specifically, private institutions signed contracts four to ten months after the beginning of the contract period; and public institutions received budget assignments approved by PRDE's Budget Office Director four to seven months after the beginning of the award period. As a result, PRDE prevented institutions from rendering services and/or hindered their ability to offer optimum services to program participants.

PRDE also lacked efficient cash management controls resulting in excess cash held totaling \$1,074,608. PRDE held funds for 15 to 316 days before making initial disbursements to subrecipients. As of January 15, 2000, PRDE still held funds totaling \$119,180. In addition, PRDE did not properly forecast payroll expenses totaling \$69,387 and failed to return excess funds from another ED program totaling \$55,799. Lastly, PRDE lacked supporting documentation for \$152,065 in cash draws and failed to reconcile "advance" payments made to subrecipients.

We recommend that the Assistant Secretary for Elementary and Secondary Education require PRDE to institute adequate controls to assure contracts are signed by both parties and budget assignments are approved prior to the beginning of the award period. PRDE must also establish adequate controls to ensure that only the amount of funds necessary to meet immediate cash needs are requested from ED and that requests made are supported with reliable supporting documentation. In addition, PRDE must establish more thorough cash forecasting procedures to encourage prompt and effective utilization of Even Start funds and must reconcile advance payments made to subrecipients.

PRDE agreed with most of the findings reported and has taken action in response to our recommendations. PRDE disagreed it overpaid \$29,240 to one institution. However, we reviewed PRDE's documentation and our position remains unchanged (see Finding 4 for specifics). We have recommended PRDE obtain an independent assessment to determine if the new control procedures detailed in its response are sufficient. PRDE's detailed response is attached as Exhibit C, except for the attachments that will be provided upon request.

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## **Finding 1**

### **PRDE severely delayed the flow of Federal funds**

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PRDE severely delayed the flow of Federal funds to Even Start subrecipients because it did not ensure contracts and budget assignments were signed prior to the beginning of the award period. Specifically, private institutions signed contracts four to ten months after the beginning of the contract period; and public institutions received budget assignments approved by PRDE's Budget Office Director or an authorized representative four to seven months after the beginning of the award period. These delays hindered the institutions' ability to offer optimum services to program participants and resulted in the suspension of the program at one institution. Also, it prevented teachers from receiving their salaries in a timely manner.

Federal regulation 34 CFR 80.21 (g) (1) states that, "*Unless otherwise required by Federal statute, awarding agencies shall not withhold payments for proper charges incurred by grantees or subgrantees...*"

PRDE published newspaper advertisements during the months of December 1997 and January 1998 to advise institutions of the availability of funds for the Even Start program for the next award year. PRDE also provided orientation to all parties interested in applying for funds under the program. Interested parties, both private and public, submitted proposals to PRDE.

PRDE evaluated all proposals and, between August and October 1998, sent acceptance and/or rejection letters to the applicants. Acceptance letters included the amount of funds approved for the institution for the award year. However, PRDE did not award funds to the institutions timely because contracts for private institutions were not signed and budget assignments for public institutions were not approved until four to ten months after the start of the program.

Private institutions entered into a contractual agreement with PRDE in order to receive Even Start funds. They were required to submit with the proposals, a series of documents necessary for the processing of the contracts such as a: (1) certification acknowledging that the institution filed income taxes for the last five years, (2) certification of

tax liability issued by the Puerto Rico Treasury Department, and (3) certification from the Department of State acknowledging that the institution was registered and in “good standing”. PRDE officials explained that private institutions failed to provide the necessary documentation, resulting in the slow processing of the contracts. PRDE officials also stated contracts were backdated because Puerto Rico law does not permit retroactive payment for contract services. Contrary to PRDE statements, private institution officials interviewed stated they did not provide additional documentation to PRDE prior to signing the contracts.

Public institutions were not required to sign a contract with PRDE; they also did not provide the various certifications. Instead, they received a budget assignment approved by PRDE’s Budget Office Director or an authorized representative, which allowed them to start receiving the funds. However, both private and public institutions were restricted from receiving funds until the contracts and budget assignments were finalized months after the beginning of the award period.

**4 - 10 month delay in signing contracts for private institutions resulted in subrecipients’ inability to provide optimum services to participants**

We reviewed 13 contracts for private institutions for award year 1998/1999. The dates on the contracts indicated they were signed one or two days prior to the beginning of the contract period. However, we identified five contracts that were actually signed 4 to 10 months after the beginning of the contract period. Officials at three of the institutions stated they signed contracts five months after the beginning of the contract period. PRDE subsequently issued checks for Even Start funds two months later. Officials at another institution stated the contract was signed seven months after the beginning of the contract period. PRDE subsequently issued a check to the institution two months later. Documentation for the other institution showed the contract was signed 10 months after the beginning of the contract period. The institution ceased operations the same week the contract was finalized. As of January 15, 2000, no funds had been requested from ED on behalf of the institution and no disbursements had been made to the institution.

Two private institutions were able to begin services utilizing their own lines of credit. However, not all institutions had sufficient funds or lines of credit to operate the program. Officials at one institution indicated that the Even Start program was discontinued for the 1999/2000 award year because of late receipt of funds for the

1998/1999 award year. The institution did not have sufficient institutional funding to continue supporting the program. In addition, some private institution officials stated programs were hindered because salaries could not be paid until contracts were signed.

The following table illustrates PRDE's restriction of Even Start Program funds for the 13 private institutions tested.

<u>PRIVATE INSTITUTION</u>	<u>PROGRAM START DATE</u>	<u>DATE OF FIRST PAYMENT</u>	<u>NUMBER OF MONTHS UNTIL FIRST PAYMENT</u>
1	October 1, 1998	April 21, 1999	7
2	October 1, 1998	April 23, 1999	7
3	October 1, 1998	June 18, 1999	9
4	October 1, 1998	June 29, 1999	9
5	October 1, 1998	April 21, 1999	7
6	July 1, 1998	*	*
7	October 1, 1998	June 9, 1999	8
8	October 1, 1998	*	*
9	October 1, 1998	May 11, 1999	7
10	October 1, 1998	*	*
11	October 1, 1998	October 15, 1999	12
12	October 1, 1998	August 2, 1999	10
13	October 1, 1998	*	*

\* No payments had been made as of January 15, 2000 because the institution had not submitted invoices.

**4 – 7 month delay for approval of budget assignments for public institutions resulted in late salary payments to teachers**

We traced the budget assignments for 11 public institutions that participated in the Even Start program during award year 1998/1999 (see table on following page). PRDE signed the budget assignments of nine public institutions in January 1999 – four months after the beginning of the award period, October 1, 1998. For the remaining two institutions, PRDE signed the budget assignments in May 1999 – seven months after the beginning of the award period. PRDE could not provide an explanation for the slow processing of budget assignments for the public institutions.

**DATE**                      **NUMBER OF  
MONTHS**



<u>PUBLIC INSTITUTION</u>	<u>PROGRAM START DATE</u>	<u>BUDGET ASSIGNMENT APPROVED</u>	<u>BUDGET ASSIGNMENT SIGNED LATE</u>
1	October 1, 1998	January 21, 1999	4
2	October 1, 1998	January 21, 1999	4
3	October 1, 1998	January 21, 1999	4
4	October 1, 1998	January 21, 1999	4
5	October 1, 1998	January 21, 1999	4
6	October 1, 1998	May 5, 1999	7
7	October 1, 1998	January 21, 1999	4
8	October 1, 1998	January 21, 1999	4
9	October 1, 1998	January 21, 1999	4
10	October 1, 1998	January 21, 1999	4
11	October 1, 1998	May 5, 1999	7

Officials at one public institution stated that for award year 1999/2000, teachers had been working since October 1999 without receiving salaries. As of January 18, 2000, the institution had not received the approved budget assignment for the 1999/2000 award year. Once they received the approved budget assignment, teachers would be able to receive retroactive payment for the time worked.

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**Recommendations**

We recommend that the Assistant Secretary for Elementary and Secondary Education require:

- 1.1 PRDE to institute controls to assure contracts and budget assignments are signed prior to the beginning of the award period; and
- 1.2 An independent assessment of PRDE's new control procedures to determine that controls are sufficient.

***PRDE's response***

PRDE agreed with the audit finding and stated it has taken significant corrective actions to improve the deficiencies in the process of assigning budgets and executing contracts to assure contracts are signed before the beginning of the award period. These include:

- Moving to earlier dates the orientations to applicants, the submission of proposals, and the evaluation process;
- Encouraging applicants to submit all necessary documentation with their proposal in order to avoid delays in the contracting process;
- Revising the Notice of Award letter to prospective contractors to include that within 10 days of receipt of the letter, they must submit

all certifications to PRDE; and

- Sending follow-up letters for any contractor who does not comply with the 10-day deadline identifying the specific missing documents and stating that if certifications are not submitted within 10 days, the award will be in jeopardy.

***OIG's reply***

PRDE's corrective actions should improve the flow of Federal funds to subrecipients. We added recommendation 1.2 to address the corrective actions PRDE stated would be taken.

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**Finding 2**

**PRDE lacked efficient cash management controls resulting in excess cash held**

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Beginning in January 1999, PRDE drew \$1,074,608 and held the funds for 15 to 316 days before making initial disbursements to subrecipients. As of January 15, 2000, PRDE still held funds totaling \$119,180, 348 days after the draws. In addition, PRDE did not properly forecast payroll expenses totaling \$69,387 and failed to return excess funds from an Adult Education program totaling \$55,799.

According to Federal regulation 31 CFR 205.7 (c) (4), “A State shall request funds not more than 3 business days prior to the day on which it makes a disbursement. . .” and (d), “a State and a Federal agency shall limit the amount of funds transferred to a state to the minimum required to meet a State’s actual, immediate cash needs.”

Furthermore, Federal regulation 34 CFR 80.20 (b) (7) states that, “Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. . .When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements.”

In addition, Federal regulation 31 CFR 205.12 (a) states that, “A State will incur an interest liability to the Federal Government from the day Federal funds are credited to a State account to the day the State pays out the funds for program purposes.”

**Not minimizing the time elapsing between receipt and disbursement of program funds resulted in PRDE holding funds for up to 348 days**

We traced the flow of funds of 13 private institutions that participated in the Even Start program during award year 1998/1999. Between April 15, 1999 and July 13, 1999, PRDE requested from ED funds totaling \$325,398 on behalf of three private institutions. PRDE requested the funds as the subrecipients submitted invoices. However, PRDE held the funds between 15 and 21 days before disbursing to the subrecipients, exceeding the 3 business days limit.

Between January 28, 1999 and May 10, 1999, PRDE requested the total amount of the contracts for six private institutions totaling \$749,210. PRDE held these funds between 37 and 316 days in excess of 3 days need before PRDE began making disbursements. Through January 15, 2000, unpaid balances totaling \$119,180 remained in the Puerto Rico Treasury Department's account at the Puerto Rico Governmental Development Bank, 348 days after the draws.<sup>1</sup>

See Exhibit A for a complete analysis of Even Start funds for the 13 private institutions through September 2, 1999, including updated data through January 15, 2000 for the six institutions whose total amount of contracts were requested in advance.

**Excess cash totaling \$55,799  
not returned from Adult  
Education program funds**

On September 2, 1999, PRDE transferred \$55,799 excess funds available from the Adult Education program to the Even Start program. PRDE officials stated that it occasionally transfers available funds between different programs in order to speed up the payment process. However, under the Grant Administration Payment System (GAPS), funds requested from ED are available within one day. Therefore, PRDE should not need to access available cash from other programs and should return the excess funds to ED.

**PRDE exceeded payroll  
forecasts by \$69,387**

PRDE's cash forecasting process was not based on accurate future expenditure forecasts. As a result, PRDE often requested more cash than needed. Payroll funds were usually estimated and requested two or three pay periods in advance. We tested payroll requests made for the period January 1999 through May 1999 and found that PRDE drew a total of \$446,784 in Even Start funds for payroll. Actual payroll paid for the period totaled \$377,397. As a result, PRDE exceeded its cash forecast by \$69,387.

In addition, payroll expenses were generally paid out of funds available from the prior award year until new accounts were opened and submitted to the Puerto Rico Treasury Department. Once accounts were opened, PRDE prepared adjusting entries charging the correct expense accounts, and requested the funds from the current year award. These transactions left cash on hand from the prior year award that, instead of being returned to ED, was held until it was disbursed for prior year invoices.

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<sup>1</sup>The Puerto Rico Treasury Department is the custodian and disbursement agent of Federal funds.

Failure to limit the amount of funds transferred to the minimum required to meet immediate cash needs and not disbursing the funds drawn down within three days needs resulted in lost interest to the Federal government.

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**Recommendations**

We recommend that the Assistant Secretary for Elementary and Secondary Education require PRDE to:

- 2.1 Return to ED any funds that have been drawn in advance, which are not in compliance with excess cash requirements, as of the date of this report;
- 2.2 Compute the interest liability of Even Start funds transferred which were not immediately released for payment and remit those amounts to ED;
- 2.3 Request from ED only the amount of funds necessary to meet the immediate cash needs in order to prevent excess cash balances in Federal programs;
- 2.4 Establish more thorough cash forecasting procedures to encourage prompt and effective utilization of Federal funds;
- 2.5 Set up new payroll accounts and submit them to the Puerto Rico Treasury Department before the beginning of each award period; and
- 2.6 Conduct an independent assessment of the new control procedures to determine if corrective actions have been taken.

***PRDE's response***

PRDE concurred with the finding and agreed that any funds drawn in advance that were not in compliance with excess cash requirements should be returned to the Federal government, including the interest earned during the audit report period. The draft report identified \$125,652 excess cash held by PRDE as of January 15, 2000. PRDE identified additional payments made to two institutions prior to January 15, 2000 and updated payments made to subrecipients through August 31, 2000, leaving a remaining balance of \$43,868 in excess cash. In addition, PRDE stated it has implemented procedures to assure requests from ED are made for the specific

amount of funds needed, drawing down funds when the invoices and payment vouchers are received, and discontinuing the policy of rounding off drawdown requests to the nearest round number. Furthermore, PRDE stated it has implemented a new payroll system that should eliminate previous problems in cash forecasting. Finally, PRDE will strive to set up new payroll accounts and submit them to the Puerto Rico Treasury Department prior to the beginning of each award period.

***OIG's reply***

We have adjusted the report to reflect a reduction in the excess cash balance reported as of January 15, 2000 because PRDE identified payments made to two institutions prior to January 15, 2000. However, we did not reduce the amount of excess cash reported to reflect PRDE's updated balance through August 31, 2000. PRDE should work with program officials on the balance to return to ED as excess cash. Further, PRDE must determine the interest liability of the funds transferred which were not immediately released for payment. Similar cash management issues have been repeatedly reported in PRDE's Single Audit reports since 1991. We added recommendation 2.6 to address the corrective actions PRDE stated would be taken.

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**Finding 3**

**PRDE lacked supporting documentation for cash draws and failed to reconcile advance payments made to subrecipients**

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PRDE lacked adequate controls to support funds drawn with reliable documentation and to properly review subrecipient expenses in order to reconcile quarterly advance payments. As a result, PRDE drew \$152,065 Even Start Program funds without proper documentation and failed to adjust “advance”<sup>2</sup> payments made to subrecipients.

Federal regulation 34 CFR 80.20 (a) (2) requires that fiscal controls and accountability procedures of entities that receive Education grants be sufficient to “*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.*”

In addition, Federal regulation 34 CFR 80.20 (b) (1) states that the financial management systems of grantees and subgrantees must meet the financial accounting standard, which indicates that “*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 subgrant.*”

**Unsupported draws total  
\$152,065**

We traced 14 of PRDE’s Even Start draws made between January 28, 1999 and September 2, 1999 totaling \$1,862,014 for award year 1998/1999. PRDE was unable to provide supporting documentation for \$152,065. As of January 15, 2000, PRDE had maintained these funds between 184 and 348 days; consequently, PRDE must return the unsupported funds to ED.

Exhibit B identifies the dates PRDE drew the Even Start funds, the amount of funds requested, amounts without supporting documentation, and the number of days in excess of 3 days needs that the funds were held by PRDE through January 15, 2000.

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<sup>2</sup>ED required PRDE to “advance” payments to subrecipients. As per PRDE’s contract with the subrecipients, once both parties signed the contract, subrecipients could submit invoices for three months of estimated expenditures. In order to receive the next advance payment, institutions submitted evidence of expenditures incurred during the previous three months. However, as explained in Finding 1, subrecipients did not receive the first payment until months after the start of the contract.

**“Advance” payments not  
reconciled**

PRDE began making “advance” payments of Even Start program funds to private institutions on a quarterly basis during the 1998/1999 award year. According to established procedures, subrecipients must submit invoices to PRDE based on expenses they expect to incur during the first quarter of the award year. For each of the remaining three quarters, subrecipients must provide evidence of actual expenses incurred during the previous quarter in order to be able to receive the next advance payment.

We found that PRDE did not perform quarterly reconciliations for the estimated and actual expenses reported by private institutions during the 1998/1999-award year. For example, for the period October 1998 to July 1999, PRDE disbursed a total of \$94,784 to one institution. Actual expenses reported by the institution for the period totaled \$91,913, resulting in an overpayment for the period of \$2,871. For the remaining two months of the award year, August 1999 and September 1999, PRDE made an advance payment of \$42,546 based on estimates. As of January 15, 2000, PRDE had made no effort to request from the institution the actual expenses incurred during the last two months of the award period in order to reconcile the account.

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**Recommendations**

We recommend that the Assistant Secretary for Elementary and Secondary Education require PRDE to:

- 3.1 Return to ED the \$152,065 resulting from funds drawn without supporting documentation, as well as the amount of lost interest to ED resulting from the excess days funds remained in PRDE’s account;
- 3.2 Establish adequate procedures to ensure that requests made to ED are supported with reliable documentation;
- 3.3 Reconcile the account of the private institutions that participated in the Even Start program during award year 1998/1999, request any excess funds disbursed, and return the funds to ED, including any lost interest;
- 3.4 Perform the quarterly reconciliations needed to ensure compliance with the established procedures;



- 3.5 Apply a reimbursement method on the last payments made to subrecipients;
- 3.6 Provide personnel the proper training necessary to ensure that they verify supporting evidence and reconcile subrecipients' accounts; and
- 3.7 Conduct an independent assessment of the new control procedures to determine that controls are sufficient.

***PRDE's response***

PRDE agreed that any funds that could not be supported must be returned to ED, including any lost interest, except funds that were already included in the excess cash calculations in Finding 2. However, PRDE claimed the unsupported draws totaled just \$12,914. PRDE also agreed to reconcile all accounts for the private institutions that participated in the Even Start Program during award year 1998-99 and return to ED excess funds disbursed, if any, including any lost interest. In addition, PRDE agreed to provide training to its personnel on acceptable supporting documentation, draw down, and quarterly reconciliation procedures. Finally, PRDE's pre-payment policy currently contemplates using a reimbursement method to pay the last contract installment to subrecipients.

***OIG's reply***

We have adjusted the audit report to reflect a correction of \$562 in total questioned costs for unsupported draws to \$152,065. However, our position remains the same because the supporting documentation submitted remains unreliable. In addition, the excess cash held resulting from the funds drawn down without reliable supporting documentation reported in this Finding was not included in the excess cash calculations in Finding 2. Therefore, PRDE must return to ED the questioned costs for unsupported draws reported in this finding, including any lost interest. In addition, PRDE should implement controls to ensure future reconciliation of advanced payments made to subgrantees are completed timely and that unreconciled items are properly acted on. We added recommendation 3.7 to address the corrective actions PRDE stated would be taken.

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**Finding 4**

**PRDE overpaid Even Start funds and failed to identify unused carryover balances due to inadequate reconciliation and validation by departments**

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In addition to the inadequate cash management controls reported in Findings 2 and 3, PRDE also lacked proper controls due to inadequate reconciliation and validation by departments responsible for approving and disbursing Even Start funds. As a result, PRDE overpaid Even Start subrecipients funds totaling \$29,240. In addition, PRDE failed to identify unused carryover balances that could have been utilized in the subsequent funding period.

Education Department General Administrative Regulations (EDGAR) 76.702 states that, *“A State and a subgrantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds.”*

In addition, EDGAR 76.709 (a) states that, *“If a State or a subgrantee does not obligate all of its grant or subgrant funds by the end of the fiscal year for which Congress appropriated the funds, it may obligate the remaining funds during a carryover period of one additional fiscal year.”*

**Overpayments**

PRDE’s Office of External Resources was responsible for operational, fiscal, and other matters related to Federal programs. All private institutions that participated in the Even Start program submitted requests for payment to External Resources. External Resources then verified and certified the invoices and sent them to the Finance Division which in turn, made a final revision to the invoices and disbursed the funds. But External Resources did not verify the final disbursements made, believing that the Finance Division made the disbursements as approved.

We traced the funds of 13 private institutions and found PRDE’s Finance Division overpaid two institutions during award year 1998/1999. One institution submitted three invoices to PRDE’s External Resources Division requesting payment of the first three quarters of award year 1998/1999, totaling \$89,372. External Resources verified the three invoices and incorrectly calculated the

total amount of one invoice. The Finance Division further incorrectly re-calculated the total amount of the invoice, making a final disbursement for the three invoices of \$109,092. This resulted in an overpayment of \$24,170. External Resources did not verify the final disbursement made and did not become aware of the overpayment.

The institution submitted to External Resources another invoice requesting payment for the third quarter of the award year. External Resources approved the invoice and the Finance Division paid \$5,070, resulting in an additional payment for a quarter that had been previously overpaid. As a result, PRDE overpaid the institution funds totaling \$29,240.

**Unused carryover balance**

PRDE's Finance Division prepared and submitted to ED a Financial Status Report for the Even Start program for award year 1997/1998. The report reflected an unobligated funds balance of \$535,373 that was not carried over and re-assigned to the subsequent award year. PRDE's Office of External Resources was not aware of the balance at the time of distributing the funds for the 1998/1999 award year because of poor communication with PRDE's Finance Division. These funds represented appropriated funds that PRDE did not utilize.

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**Recommendations**

We recommend that the Assistant Secretary for Elementary and Secondary Education require PRDE to:

- 4.1 Strengthen its internal control structure by establishing a reconciliation and validation process;
- 4.2 Refund \$29,240 to ED for overpayment to the subrecipient;  
and
- 4.3 Conduct an independent assessment of the new control procedures to determine that controls are sufficient.

***PRDE's response***

PRDE agreed that for fiscal year 1997-98 it failed to obligate the Even Start carryover balance. This oversight was immediately corrected under the External Resources Office's new leadership. In addition, PRDE stated it would strengthen its existing reconciliation and validation policies through additional training of PRDE staff, as well as orientation to the proponents. However, PRDE strongly disagrees with the determination that it overpaid \$29,240 to one institution.

***OIG's reply***

Contrary to PRDE's disagreement that it overpaid \$29,240 to one institution, we adhere to our position that PRDE overpaid the institution. On May 12, 1999, the institution submitted a request for payment for the period April to June 1999. The original request totaled \$30,672. PRDE adjusted the total amount requested and paid \$50,392, resulting in a supposed overpayment of \$19,720 (\$50,392 - \$30,672). However, the correct total of the request should have been \$26,222. As a result, PRDE overpaid the institution \$24,170 (\$50,392 - \$26,222). On July 1, 1999, the institution submitted another request for payment for the same period mentioned above (April to June 1999). Although PRDE claimed that it adjusted the previous overpayment and paid only \$5,070, we determined that the payment was not properly issued because PRDE had already paid the institution for the same period. As a result, PRDE overpaid the institution \$29,240 (\$24,170 + \$5,070), the amount that should be refunded to ED. We added recommendation 4.3 to address the corrective actions PRDE stated would be taken.

## **Other Matters**

Because PRDE's Single Audit reports have been historically late, ED lacks the appropriate information to adequately monitor PRDE's administration of ED funds. The reports submitted have contained repeated findings, including similar cash management problems disclosed in this report, which have yet to be corrected. During our review, we examined PRDE's Single Audit reports for the years ended June 30, 1996, and June 30, 1997. The 1997 report, which should have been submitted by the end of July 1998, was submitted in February 2000. The 1998 Single Audit report should have been submitted in September of 1999 and the June 30, 1999 Single Audit report should have been submitted in March 2000. As of June 13, 2000, neither the 1998 nor the 1999 reports have been submitted.

## **Background**

The Even Start Program, which started in 1989, supports family-centered educational programs for parents and children from birth through age seven; helps parents become full partners in the education of their children; and helps children reach their full potential as learners. Its goal is to demonstrate that comprehensive programs of two-generation literacy, parenting, and early childhood education can improve educational opportunities and life chances of disadvantaged families in local communities throughout the United States.

The U.S. Department of Education awards formula grants to state education agencies (SEAs) that, in turn, make competitive discretionary grants to partnerships of local education agencies (LEAs) and community-based organizations for Even Start projects. PRDE, which acts as both the SEA and the LEA for the island, administers the Even Start projects. Because it is both SEA and LEA, PRDE distributes Even Start program funds directly to its subrecipient partners that are private and public institutions.

During award year 1998/1999, a total of 24 institutions, (13 private and 11 public) participated in the Even Start program. PRDE assigned \$3,716,110 to the private and public institutions for the 1998/1999-award year.

## **Audit objectives**

The purpose of our audit was to determine whether PRDE properly administered Even Start funds. Specific objectives included the following:

- Determine if PRDE has adequate controls to request Even Start funds from ED and distribute the funds to subrecipients;
- Determine if PRDE has a system to monitor subrecipients;
- Determine if PRDE has adequate controls for administering contracts for Even Start funds; and
- Determine the flow of the federal funds from ED to PRDE through to the subrecipients.

## **Methodology & scope**

To achieve the audit objectives, we reviewed PRDE's most recent Single Audit Reports (Fiscal Year 1996 and 1997), the Fiscal Year 1997 independent evaluation of PRDE's monitoring of subrecipients,

policies and procedures for awarding Even Start funds to subrecipients, and the funds assigned by PRDE to the subrecipients.

We interviewed officials from PRDE's External Resources office, Finance Division, and officials from the Puerto Rico Comptroller's Office, Puerto Rico Government Development Bank, and Puerto Rico Treasury Department regarding PRDE's administration of Federal funds.

In addition, we made site visits to six institutions, four private and two public. We made site visits to private institutions on September 14, 1999, September 16, 1999 and November 12, 1999. We made site visits to two public institutions on January 18, 2000.

Lastly, we traced all 14 PRDE draws of Even Start funds during the period January 28, 1999 through September 2, 1999 to follow the funds from ED to PRDE through to the subrecipients; and traced the flow of funds to 13 private institutions during the period October 1, 1998 through September 2, 1999. To fully develop issues discussed in this report, we followed Even Start funds through January 15, 2000.

Data reliability  
assessment

We did not use electronic data provided by PRDE for this audit. With the exception of GAPS information, we did not rely on electronic data provided by the U.S. Department of Education. To verify the accuracy of the GAPS data, we traced the funds drawn, as reported in GAPS, from ED to PRDE's source documentation. Based on our tests, we conclude the data was sufficiently reliable to meet the audit objectives.

Audit period

The period of our audit was from May 1, 1998 to September 2, 1999. Updated data as of January 15, 2000 was incorporated into the findings presented. We performed our fieldwork at PRDE's offices in Hato Rey, Puerto Rico from June 28, 1999 through February 29, 2000. We determined the status of the 1998 and 1999 Single Audit reports on June 13, 2000. In addition, we made site visits to six institutions that participate in the Even Start program, as detailed above.

Our audit was conducted in accordance with government auditing standards appropriate to the limited scope of the audit described above.

## **Management controls**

As part of our audit, we made an assessment of PRDE's management control structure, policies, procedures, and practices applicable to the audit scope. The purpose of our assessment was to determine the level of control risk; that is, the risk that material errors, irregularities, or illegal acts may occur.

We identified and classified the significant management controls into the following categories:

- Contracts
- Cash management

## **Material weaknesses**

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the control structure. However, our assessment disclosed weaknesses specifically related to the contracts and cash management. These weaknesses are discussed in the body of this report.



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**EXHIBIT A**  
**SUMMARY REPORT EVEN START FUNDING - PRIVATE INSTITUTIONS**  
**FROM JANUARY 28, 1999 TO SEPTEMBER 2, 1999**  
**UPDATED THROUGH JANUARY 15, 2000**

INSTITUTION	AMOUNT REQUESTED	DATE FUNDS WERE REQUESTED	PAYMENT VOUCHER DATE	INVOICE AMOUNT	PERIOD COVERED	CHECK AMOUNT	BALANCE	DATE CHECK WAS CASHED	EXCESS DAYS FUNDS HELD BEFORE BEING DISBURSED THROUGH 9/2/99	EXCESS DAYS FUNDS HELD BEFORE BEING DISBURSED THROUGH 1/15/00
<b>FUNDS REQUESTED AS NEEDED:</b>										
1	\$ 127,058	6/10/99					\$ 127,058		15	
			6/4/99	\$ 39,411	10/98-12/98					
				\$ 41,670	1/99-3/99					
				\$ 45,977	4/99-6/99	\$ 127,058	\$ -	6/29/99	0	
2	\$ -	-	-	\$ -	-	\$ -	\$ -	-	0	
3	\$ -	-	-	\$ -	-	\$ -	\$ -	-	0	
4	\$ 89,247	4/15/99					\$ 89,247		21	
			4/15/99	\$ 25,513	10/98-12/98					
				\$ 8,485	Jan-99					
				\$ 8,543	Feb-99					
				\$ 46,706	3/99-5/99	\$ 89,247	\$ -	5/11/99	0	
5	\$ -	-	-	\$ -	-	\$ -	\$ -	-	0	
6	\$ -	-	-	\$ -	-	\$ -	\$ -	-	0	
7	\$ 109,093	7/13/99	6/24/99				\$ 109,093		18	
				\$ 34,101	10/98-12/98					
				\$ 24,600	1/99-3/99					
				\$ 50,392	4/99-6/99	\$ 109,093	\$ -	8/2/99	0	
<b>SUB TOTAL (FUNDS REQUESTED AS NEEDED)</b>										
	\$ 325,398					\$ 325,398	\$ -			
<b>CONTRACTS REQUESTED IN ADVANCE:</b>										
8	\$ 190,000	2/23/99					\$ 190,000		55	
			3/17/99	\$ 44,105	10/98-12/98					
				\$ 44,444	1/99-3/99	\$ 88,549	\$ 101,451	4/21/99	75	
			4/26/99	\$ 52,269	4/99-6/99	\$ 52,269	\$ 49,182	5/11/99	183	
(1)			8/11/99	\$ 49,101	7/99-9/99	\$ 48,989	\$ 193	8/27/99	204	
			9/3/99	\$ 193	9/1/99	\$ 193	\$ -	9/17/99	0	
9	\$ 135,000	3/4/99	3/17/99				\$ 135,000		48	
				\$ 5,583	Oct-98					
				\$ 4,858	Nov-98					
				\$ 5,621	Dec-98					
(2)				\$ 7,123	Jan-99	\$ 25,185	\$ 109,815	4/23/99	101	
				\$ 7,434	Feb-99	\$ 7,434	\$ 102,381	6/17/99	178	
			9/7/99	\$ 10,655	Mar-99					
				\$ 14,729	Apr-99					
				\$ 12,308	May-99					
				\$ 15,259	Jun-99	\$ 52,951	\$ 49,430	9/22/99	277	
			11/30/99	\$ 11,100	Jul-99	\$ 11,100	\$ 38,330	12/10/99	313	
10	\$ 100,000	5/10/99					\$ 100,000		37	
			6/3/99	\$ 45,430	10/98-12/98					
				\$ 42,415	1/99-3/99					
				\$ 12,155	4/99-6/99	\$ 100,000	\$ -	6/18/99	0	
11	\$ 100,000	2/23/99					\$ 100,000		55	
			3/10/99	\$ 16,701	10/98-12/98					
				\$ 34,048	2/99-4/99	\$ 50,749	\$ 49,251	4/21/99	189	
			8/3/99	\$ 22,872	5/99-7/99	\$ 22,872	\$ 26,379	9/8/99		278
			11/3/99	\$ 26,130	8/99-9/99	\$ 26,130	\$ 249	11/30/99		324

EXHIBIT A  
SUMMARY REPORT EVEN START FUNDING - PRIVATE INSTITUTIONS  
FROM JANUARY 28, 1999 TO SEPTEMBER 2, 1999  
UPDATED THROUGH JANUARY 15, 2000

INSTITUTION	AMOUNT REQUESTED	DATE FUNDS WERE REQUESTED	PAYMENT VOUCHER DATE	INVOICE AMOUNT	PERIOD COVERED	CHECK AMOUNT	BALANCE	DATE CHECK WAS CASHED	EXCESS DAYS FUNDS HELD BEFORE BEING DISBURSED THROUGH 9/2/99	EXCESS DAYS FUNDS HELD BEFORE BEING DISBURSED THROUGH 1/15/00
12	\$ 149,210	2/23/99					\$ 149,210		104	
			2/19/99	\$ 7,624	Oct-98					
				\$ 8,018	Nov-98					
				\$ 6,852	Dec-98					
				\$ 6,607	Jan-99	\$ 29,101	\$ 120,109	6/9/99	153	
			6/21/99	\$ 8,084	Feb-99					
				\$ 8,459	Mar-99					
				\$ 9,781	Apr-99					
				\$ 36,116	5/99-7/99	\$ 62,440	\$ 57,669	7/28/99	189	
			10/5/99	\$ 3,243	Jul-99					
	\$ 42,546	8/99-9/99	\$ 45,789	\$ 11,880	11/29/99		324			
13	\$ 75,000	1/28/99				\$ 75,000	-		316	
			11/30/99	\$ 6,279	10/98-3/99	\$ 6,279	\$ 68,721	12/13/99	348	

SUB TOTAL  
(CONTRACTS  
REQUESTED  
IN ADVANCE) \$ 749,210 \$ 630,030 \$ 119,180

TOTAL \$ 1,074,608 \$ 955,428 \$ 119,180

**EXHIBIT B  
EVEN START FUNDS NOT SUPPORTED**

	<u>DATE OF DRAW</u>	<u>TOTAL AMOUNT REQUESTED</u>	<u>AMOUNT NOT EVIDENCED</u>	<u>DATE AFTER 3 WORKING DAYS</u>	<u>EXCESS DAYS FUNDS HELD THROUGH January 15, 2000</u>
1	1/28/99	\$ 80,000	\$ 5,000	2/2/99	348
2	2/23/99	\$ 500,000	\$ 60,790	2/26/99	324
3	3/4/99	\$ 200,000	\$ 65,000	3/9/99	313
4	4/9/99	\$ 110,000	\$ -		0
5	4/22/99	\$ 81,500	\$ 12,506	4/27/99	264
6	4/28/99	\$ 95,514	\$ 408	5/3/99	258
7	5/25/99	\$ 110,000	\$ 237	5/28/99	233
8	6/10/99	\$ 165,000	\$ 3,837	6/15/99	215
9	6/28/00	\$ 80,000	\$ -		0
10	6/30/99	\$ 175,000	\$ 2,436	7/6/99	194
11	7/13/99	\$ 65,000	\$ 1,851	7/16/99	184
12	8/2/99	\$ 38,000	\$ -		0
13	8/24/00	\$ 30,000	\$ -		0
14	9/2/99	\$ 132,000	\$ -		0
<b>TOTAL</b>		<b>\$ 1,862,014</b>	<b>\$ 152,065</b>		



## DEPARTMENT OF EDUCATION

OFFICE OF THE SECRETARY

SEP - 5 2000

Mr. Daniel Schultz  
Regional Inspector General for Audit  
U.S. Department of Education/OIG  
75 Park Place, Room 1207  
New York, NY 10007

RE: ED-OIG/A01-90007  
ED-OIG/A01-90006

Dear Mr. Schultz:

Enclosed please find our response to the draft audit reports referenced above.

Over the last 18 months, my staff has worked closely with your auditors to clarify and resolve numerous financial management issues, some of which are addressed in this draft report concerning the Even Start and Governor's SDFSCA Programs. The PRDE has already implemented numerous suggestions and recommendations posed by your auditors. This response gave us the opportunity to highlight many of those corrective actions, as well as refute erroneous findings included in the draft report. In the spirit of the Cooperative Audit Resolution and Oversight Initiative (CAROI), I am hopeful that this process will result in improving our administration of the Even Start and Governor's Programs.

If you have any questions on this response, please do not hesitate to contact me or Mrs. Adaljisa Bidot, Director of External Resources, at (787) 759-8910, ext. 203. Thank you for your attention to this matter.

Sincerely,

Victor Fajardo, Ed.D.  
Secretary

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**OIG DRAFT AUDIT REPORT  
EVEN START  
AUDIT CONTROL NO. ED-OIG/A01-90006**

The PRDE appreciates the opportunity to respond to the Office of Inspector General (OIG) findings of the July 31, 2000, draft audit report. This response was originally due 30 days after the date of the letter (on Wednesday, August 30). On August 29, the PRDE requested nine additional calendar days to respond to the findings due to the significant disruption caused by Hurricane Debby during the prior week. The PRDE strived to be conservative in its request for additional time, and in light of the intervening Labor Day weekend, requested an extension until August 8. The OIG responded that information must be submitted no later than August 6.

The draft audit report was developed over a period of 8 months of on-site analysis and involved an exhaustive review of financial controls in the Even Start and Governor's Safe and Drug Free Program. The breadth and depth of the findings addressed in these two draft audit reports is significant. The PRDE has worked arduously to provide a comprehensive response within the OIG's mandated and inflexible 37-day timeframe. The PRDE is continuing to review and develop data demonstrating errors in the OIG's findings and will submit additional documentation as such is identified.

**Finding No. 1 – PRDE severely delayed the flow of Federal funds**

The PRDE takes seriously the draft audit report finding that the PRDE severely delayed the flow of federal funds by failing to approve contracts and budget assignments on a timely basis. This situation arose due to a variety of circumstances, including compliance with complex state legal requirements and many delays which were caused by the failure of contractors to comply with contract and procurement procedures.

The PRDE is bound by Puerto Rico law and regulatory policy in its dealings with private contractors. Puerto Rico law requires that all private institutions that are awarded state or federal funds for any project must enter into a valid contract. The contract establishes the terms and conditions and specifies program compliance requirements. The private institutions also must submit seven certifications from numerous government agencies to ensure compliance with relevant tax and administrative requirements. (A list of these documents has attached at Exhibit 1.) Puerto Rico law requires that all certificates must be originals. In addition, six of the seven certificates must be issued within the last year, and one must be issued within the last 3 months.

Although these state law requirements may lengthen the time for formalizing contracts, they provide important safeguards in ensuring the fiscal responsibility of our contractors. Although PRDE does not have the authority to waive these requirements, we have taken steps to reduce the delays that these legal steps sometimes occasion.

In addition to waiting for required documentation, the assignment of final budgets and the valid execution of contracts is often delayed because of contractors' protracted

negotiations over the amount of funds awarded. The delays in budget assignments identified in the OIG draft report were in large measure due to these requests by contractors. When PRDE evaluates a proposal, the reviewers often determine that the appropriate award amount is less than the amount requested. After the Notice of Award is received, contractors contact the PRDE to request additional funds. Many contractors delay submitting the required revised budgets in the hopes of obtaining an increase in award amount. PRDE then delays issuance of final budget assignments in order to provide the contractors with a full opportunity to pursue their requests for additional funds. (See Exhibit 2, October 16, 1998 memorandum approving a final budget after contractor negotiated additional funds.) While the PRDE attempts to be responsive to these contractors, it nonetheless is required to set limits on the timeframes for negotiating such requests in order to disburse funds in a timely fashion. Therefore, on July 7, 2000, the PRDE established strict procedures for the evaluation of revisions to proposals. (Exhibit 3 )

### **RECOMMENDATIONS**

#### ***1.1. Institute controls to assure contracts and budget assignments are signed prior to the beginning of the award period.***

The PRDE agrees with this recommendation and has taken significant corrective action to improve the deficiencies in the process for assigning budgets and executing contracts. These corrective actions are enumerated in the attached memorandum sent from Director of External Resources, Adaljisa Bidot, to the Subsecretary for Administration, Héctor Nevárez. (Exhibit 4) These actions are summarized below.

1. Orientation and Proposal Submission – PRDE has moved the orientation and submission dates to earlier in the spring. In February, 2000, a meeting was held to explain the proposal submission process to prospective contractors. As part of the orientation process, applicants were informed of the specific certifications required and encouraged to submit all necessary documentation with their proposal. It was explained that a failure on the part of a contractor to submit required documentation in a timely fashion will necessarily delay the process. Proposals were due on April 15, rather than in July, as had been the practice in past years.
2. Proposal Review Process – The PRDE has taken steps to streamline the proposal evaluation process. This year, all steps in the evaluation process were moved earlier. Even Start proposals were the first to be evaluated by PRDE's Evaluation Committee and the Secretary. This review and evaluation took place in May and June. Proposals were approved on July 10, rather than September, as had been the past practice.
3. Notice of Award -- The Notice of Award was revised to state that: 1) within 10 days of receipt of the letter, prospective contractors must

submit all certifications and a revised budget to PRDE (a list was attached), and 2) work cannot begin without a signed, valid contract. (See Exhibit 5, sample Notice of Award)

4. Follow-up letter – For any contractor who did not comply with the 10-day deadline set out in the Notice of Award, the PRDE sent a follow-up letter, identifying the specific missing documents and stating that if certifications were not submitted within ten (10) days, the award was in jeopardy. (Exhibit 6)

These corrective actions have proven extremely effective. Based on our progress, we are confident contracts will be signed before the October 1 start date.

**Finding No. 2 – PRDE lacked efficient cash management controls resulting in excess cash held**

***a) PRDE did not minimize time elapsing between the receipt and disbursement of program funds***

The draft audit finds that PRDE failed to minimize time elapsing between the receipt and disbursement of program funds. The major factor contributing to this elapsed time was the implementation of Puerto Rico's new comprehensive payment system – PRIFAS—which went into effect on July 1, 1998. During the initial year of PRIFAS implementation, numerous agencies had difficulties disbursing funds in a timely manner. Those initial problems were addressed and mostly resolved during subsequent years.

For programs covered by the Cash Management Improvement Act, Subpart B Regulations, the PRIFAS system required a grantee to draw down funds before it could process a payment voucher. Immediately upon learning of the OIG's concerns over the practice of drawing down all contract funds early in the contract period, the PRDE Finance Office amended its policy. In a September 1999 memorandum (Exhibit 7), the PRDE explains its new procedures concerning drawdowns for contracts. The PRDE only draws funds when the invoice and payment voucher are received. Once received, the PRDE draws down funds and pays the contractor. This practice has been followed since September, 1999.

Small amounts of excess cash also resulted from the PRDE's policy of rounding off draw down requests to the nearest round number. (i.e., request \$5,000, rather than \$4,879) The PRDE discontinued the policy to "round up" draw down requests in February, 2000, through a memorandum dated February 28, 2000. (Exhibit 8)

The report identifies an amount of \$125,652 in excess cash that was being held as of January 15, 2000. Exhibit 9 demonstrates that the January 15 amount was incorrect and that the remaining excess cash balance as of August 31, 2000, was \$43,867. The auditors' balance of \$125,652 failed to identify certain payments made to institutions prior to January 15, 2000. (See Exhibit 9, payments to Centro Sister Isolina Ferre on



9/17/99 for \$192.75, eliminating balance of account, and to Ser Jobs for Progress on 12/13/99 for \$6,278.80) Moreover, most of the excess cash balances were expended during the spring of 2000, leaving a remaining balance of \$43,867.

Institution	Number of Exhibit A	Outstanding Balance
Centro San Francisco	11	\$ 249
Asociación Apoyo Educativo	12	11,880
Ser Jobs for Progress	13	31,443
Centro Sor Isolina- Caimito	9	296
<b>TOTAL</b>		<b>\$43,868</b>

*b) Excess cash not returned from Adult Education program funds*

The draft report criticizes PRDE's practice of transferring excess cash from one program to another program with an immediate cash need. The report states that the practice is unnecessary since under the GAPS system, funds requested from ED are available within one day. While GAPS may make funds available to the Commonwealth of Puerto Rico within one day, it often takes at least 10-12 days for the PRDE to receive access to those funds due to the state-mandated controls applicable to drawing federal funds.

To access federal funds, the PRDE must adhere to the following process. After the PRDE requests funds from ED, GAPS provides funds to the Puerto Rico Government Development Bank (GDB) within one day of the request. The GDB takes 2-3 days to issue a credit notice. After issuance, the PRDE Finance Office must pick up the credit notice and prepare a remittance voucher and enter it into the PRIFAS system, which takes an additional 2 days. The Finance Office then sends the remittance voucher to the Treasury Department and waits for Treasury's approval, typically requiring another 3-5 days. Finally, the Finance Office must monitor the PRIFAS system to obtain notice of the Treasury's approval. Therefore, the total procedure requires at least 10-12 days for PRDE to access the funds.

Because of the delays inherent in this process, the PRDE occasionally advances excess cash from one federal program to another federal program with an immediate cash need, rather than processing additional separate requests. This practice not only results in no harm to the federal interest, but actually is consistent with the federal mandate that federal cash be expended shortly after draw down. The accounts are immediately credited and debited through the GAPS system and funds which were previously idle are immediately applied to programmatic obligations.

In the Adult Education case cited in the report, the Finance Office made a revenue modification to advance excess funds from Adult Education to Even Start, while simultaneously reinstating funds to the Adult Education program through GAPS. This

simultaneous adjustment is reflected in the GAPS system "Adjustment" column, which showed a negative amount in the Adult Education Program (i.e., a reduction in the draw downs) and a positive balance in the Even Start Program (i.e., an increase in draw downs). This practice permitted PRDE to provide immediate cash to a needy program and avoided federal funds sitting unused in an account. Thus, there was no harm to the federal interest.

*c) PRDE exceeded payroll forecasts*

In September, 1999, the PRDE began using a new payroll system – the "Human Resources Model" or "RHUM". Under the RHUM system, the PR Treasury sends more regular reliable payroll reports so that PRDE can verify forecast amounts and expenditures. Use of the RHUM system should correct the deficiencies identified in the draft report.

**RECOMMENDATIONS:**

***2.1 -- Return to ED any funds that have been drawn in advance, which are not in compliance with excess cash requirements, as of the date of this report.***

The PRDE agrees that any funds that have been drawn in advance that are not in compliance with excess cash requirements at the resolution of this audit should be returned to the federal government. PRDE disagrees that the amount should be frozen as of the date of the audit report.

***2.2 – Compute the interest liability for Even Start funds transferred which were not immediately released for payment and remit those amounts to ED.***

The PRDE agrees that interest is owed to the federal government for Even Start funds that were at the PR GDB earning interest during this audit report period.

***2.3 – Request from ED only the amount of funds necessary to meet the immediate cash needs in order to prevent excess cash balances in Federal programs.***

The PRDE has implemented the recommended procedure and currently PRDE requests only the specific amount of funds needed. (See Exhibit 8)

***2.4 – Establish more thorough cash forecasting procedures to encourage prompt and effective utilization of Federal funds.***

The improvements made through the RHUM system should eliminate previous problems in cash forecasting.

***2.5 – Set up new payroll accounts and submit to Treasury before the beginning of each award period.***

The PRDE Budget Office will strive to set up new payroll accounts and submit them to the Treasury Department prior to the beginning of the award period.

**Finding No. 3 – PRDE lacked supporting documentation for cash draws and failed to reconcile advance payments made to subrecipients**

The OIG report cites deficiencies in PRDE's process of making advance payments to contractors. The OIG should be aware that in 1998, over the serious objection of the PRDE, the USDE mandated that PRDE provide advanced payments to subrecipients. (See Exhibit 10, documenting USDE pressure to abandon reimbursement for contractors and use advance funding) Despite its serious concerns with implementing such a system in Puerto Rico, the PRDE implemented the USDE's mandate beginning in the 1998-99 school year.

***(a) Unsupported draws total \$152,627***

Exhibit 11 contains evidence refuting nearly all examples cited as unsupported draws. The PRDE provides support for \$140,480, thereby reducing the auditor's amount of \$152,627 to \$12,914. Draws that are currently identified as unsupported are identified below. The PRDE is continuing to review supporting documentation and will submit additional information as it is identified.

Date of Request	Total amount request	Amount not supported
4/22/99	\$81,500	\$12,506
4/28/99	95,514	408
Total		\$12,914

***(b) Advanced payments not reconciled***

In 1998-99 the PRDE initiated the advance payment system in response to ED's demand. (The practice in past years was to pay contractors based on reimbursement for expenditures documented.) From its initial implementation, the PRDE's policy for advance payments included numerous checks and balances, including quarterly reconciliations. These procedures were strengthened during the second year of implementing advanced payments. In January, 2000, the Office of External Resources sent a detailed memorandum explaining the procedures for obtaining advanced payments – the "Pre-Payment Policies. (Exhibit 12) The Pre-Payment Policy explicitly states no requests for pre-payment will be processed unless accompanied by evidence of expenditures from the previous period, and that projections for which no expenditure evidence was available will be deducted from the subsequent request for funds. (See Exhibit 12, paragraphs 3 & 4)

Proponents receive multiple orientations to the advance payment process even before the program year begins. The contractor is required to submit a form, "Information on Expenditures and Request for Funds", which shows: original budget; accumulated expenditures from the entire year; expenses from the last quarter; projected costs for the next quarter; and the remaining balance in the account. This information is

reviewed and validated by the External Resources Office before being sent to the Finance Office for a second analysis.

In the event a contractor incorrectly projects the budget for its quarterly expenses, it is the PRDE's practice to adjust subsequent payments to reflect the overpayment or underpayment. (This practice is enumerated explicitly in the Pre-Payment Policy, paragraph 3, Exhibit 12, and an example of this practice is illustrated in PRDE's refutation of Finding 4.)

The draft report specifically references unreconciled payments made to one institution, Asociacion Apoyo Educativo. The PRDE is reviewing the payments at issue and is working with the institution to resolve the finding. (See Exhibit 13)

**RECOMMENDATIONS:**

***3.1 – Return to ED the \$152,627 resulting from funds drawn without supporting documentation, as well as the amount of lost interest to ED resulting from the excess days funds remained in the PRDE's account.***

The PRDE agrees that any funds that cannot be supported must be returned to ED. The PRDE should not be required to return any funds that have already been included in the excess cash calculations in Finding 2.

***3.2 -- Establish adequate procedures to ensure that requests made to ED are supported with reliable documentation.***

The PRDE will strengthen its existing procedure by training personnel on acceptable supporting documentation and draw down procedures. In addition, the PRDE has hired additional personnel to oversee and manage the Even Start program. In August, 2000, two permanent employees were hired as fiscal officers for Even Start, and in May, 2000, a temporary worker was hired for six months to improve organization and oversight.

***3.3 -- Reconcile the account of the private institutions that participated in the Even Start program during award year 1998-99, request any excess funds disbursed, and return the funds to ED, including any lost interest.***

The PRDE agrees to reconcile all accounts for the private institutions from 1998-99 and return necessary funds, if any, to ED, including any lost interest.

***3.4 – Perform the quarterly reconciliations needed to ensure compliance with the established procedures.***

The PRDE will strengthen its existing procedure by training personnel on the quarterly reconciliation process. The PRDE has been able to apply its existing policies more effectively since it has increased the administrative capacity of the Even Start program. The Even Start program now has a fiscal officer in the External Resources Office, as well as the program director and clerical staff. This enhanced support will result in better compliance with the established reconciliation procedure.

**3.5 – Apply a reimbursement method on the last payments made to subrecipients.**

The PRDE's pre-payment policy currently contemplates using a reimbursement method to pay the last contract installment. (See policy, paragraph 6, Exhibit 12)

**3.6 – Provide personnel the proper training necessary to ensure that they verify supporting evidence and reconcile subrecipients' accounts.**

The PRDE will enhance its system of controls by providing additional training to personnel from the Offices of External Resources and Finance. This training will be conducted during the first quarter of the upcoming year.

**Finding No. 4 – PRDE overpaid Even Start funds and failed to identify unused carryover balances due to inadequate reconciliation and validation by departments**

The draft report alleges that the PRDE did not properly perform reconciliations and validations of payments to contractors, resulting in overpayments and failure to identify unused carryover balances.

**(a) Overpayments**

The PRDE strongly disagrees with the determination that it overpaid one institution by \$29,240. The institution, Centro de Servicios a la Juventud, submitted a request for payment dated May 12, 1999. In determining the total amount of the request, the PRDE incorrectly re-added the subtotals, resulting in an overpayment of \$19,720. (See Exhibit 14. \$19,720 is the difference between the original \$30,671.53 and handwritten revision of \$50,391.53) This erroneous amount was included in the payment voucher for \$109,092.47.

This overpayment, however, was correctly reduced from the institution's subsequent payment. In a request for payment dated July 1, 1999, the institution requested a total of \$24,789.94. In the payment voucher dated August 27, 1999, the PRDE adjusts for the previous overpayment and correctly subtracts the overpaid amount from the current request. This adjustment is noted on the payment voucher and illustrated below:

\$24,789.94 – total amount of institution's request  
– 19,720.00 – amount of previous overpayment  
\$5,069.94 – adjusted amount of new payment

The PRDE properly issued the new payment for \$5,069.94

Contrary to the findings in the draft report, the PRDE maintained a practice to validate, reconcile, and adjust contractors' payments, as necessary, and the instance cited by the OIG demonstrates how well the PRDE system of checks and balances works. (See PRDE response to Finding 3, including Pre-Payment Policy, Exhibit 12)

*(b) Carryover*

The PRDE concedes that for fiscal year 1997-98, it failed to obligate the Even Start carryover balance of \$535,373. This incident represents an exception to PRDE's practice to carefully track carryover balances and obligate funds within the 27-month period of availability. The 1997-98 year involved significant turnover in personnel from leadership positions within the Office of External Resources. During this transitional period, the carryover balance for the Even Start program was not properly identified and obligated.

This oversight was immediately corrected under the External Resources' new leadership. For the 1998-99 fiscal year, the PRDE identified the carryover amount as \$314,237.39. (See Exhibit 15, FY 98-99 Financial Status Report) As of September 1, the PRDE had obligated \$300,000 of the carryover and plans to obligate the remaining \$14,237.39 before September 30.

**RECOMMENDATIONS:**

***4.1 Strengthen its internal control structure by establishing a reconciliation and validation process.***

The PRDE will strengthen its existing reconciliation and validation policies through additional training of PRDE staff, as well as orientation to the proponents.

***4.2 Refund \$29,240 to ED for overpayment to the recipient.***

The PRDE does not concur. As noted above, the PRDE did not overpay the institution.