
**Puerto Rico Department of Education
Did Not Administer Properly a \$9,700,000 Contract
With National School Services of Puerto Rico**

FINAL AUDIT REPORT



**Audit Control Number ED-OIG/A01-A0004
March 2001**

Our mission is to promote the efficient
and effective use of taxpayer dollars
in support of American education.



U.S. Department of Education
Office of Inspector General
New York Audit Region
San Juan, PR Area Office



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

ED-OIG/A01-A0004

MAR 28 2001

Honorable César Rey
Secretary of Education
Estado Libre Asociado de Puerto Rico
Departamento de Educación
Calle Teniente González Esq. Calle Calaf – 12th floor
Urb. Tres Monjitas
Hato Rey, Puerto Rico 00919

Dear Secretary Rey:

Enclosed is our report entitled *Puerto Rico Department of Education Did Not Administer Properly a \$9,700,000 Contract With National School Services of Puerto Rico* (ED-OIG/A01-A0004). 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:

Mr. Thomas Corwin
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Ave., SW Room 3W315
Washington, D.C. 20202

Office of Management and Budget Circular A-50 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

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 of 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.

Table of Contents

Executive Summary	1	
AUDIT RESULTS		
Finding 1	PRDE awarded a \$9,700,000 fixed-price contract without full and open competition	3
	Recommendations	4
	PRDE’s response.....	4
	OIG’s reply.....	4
Finding 2	PRDE failed to determine each line item of cost included in the fixed-price contract to ensure the contractor’s proposed price was fair and reasonable	5
	Recommendations	6
	PRDE’s response.....	6
	OIG’s reply.....	6
Finding 3	PRDE lacked controls to ensure compliance with the contract and Federal regulations	7
	Recommendations	8
	PRDE’s response.....	8
	OIG’s reply.....	8
Other Matters	9	
	Recommendations	9
	PRDE’s response.....	9
	OIG’s reply.....	10
Background	11	
Scope and Methodology	11	
Qualification of Audit Results	12	
Management Controls	12	
Exhibit A:	Summary of Questionable Costs and Unsupported Costs	
Exhibit B:	Excerpt of PRDE’s response	

Executive Summary

Puerto Rico Department of Education (PRDE) failed to award properly a Title I¹ fixed-price contract totaling \$9,700,000 for Elementary School Learning Centers in Puerto Rico for the 1998/1999 school year. PRDE awarded the contract to National School Services of Puerto Rico (NSSPR) without full and open competition. PRDE also did not determine each line item of cost included in the fixed-price contract. Because PRDE did not competitively bid the contract, PRDE and the U.S. Department of Education (ED) could not be assured that the highest quality services and products were received at competitive prices or that certain vendors were not given preferential treatment or arbitrarily excluded. Moreover, resources used to pay unreasonable amounts could have otherwise been used to attend to other projects or used for additional learning centers at needy elementary schools, as provided for under the terms of the contract. PRDE officials stated that the contract did not have to be competitively bid because the contract was for professional services, and under Puerto Rico law, professional services' contracts do not need competitive bids. However, the services contracted for were primarily for acquisition of equipment and furniture, rather than professional services.

PRDE also did not enforce the terms of the contract. For example, PRDE did not adequately review NSSPR's invoices for supporting documentation of costs claimed or for adherence to the contract prior to payment. As a result, PRDE paid \$1,193,993 in questionable costs and \$6,647,500 in unsupported costs to NSSPR for the contract. In addition, PRDE did not identify that NSSPR substituted other computer equipment for that specified in the contract and did not obtain a contract compliance audit from NSSPR. Moreover, PRDE did not inventory materials, equipment, and property purchased by NSSPR with Federal funds and did not ensure that NSSPR replaced equipment removed for repair, as stipulated in the contract.

We also found that PRDE did not ensure that the objectives of the project were achieved because learning centers did not utilize materials and software provided under this contract and did not teach all three subjects, English, Spanish, and Mathematics as the contract stipulated.

We recommend that the Assistant Secretary for Elementary and Secondary Education require PRDE to establish controls to ensure all procurement transactions involving Federal funds provide for open and free competition and maintain records justifying lack of competition when competitive bids are not obtained, as well as the basis for contractor selection. Furthermore, PRDE should establish effective procurement procedures in order to ensure it obtains fair and reasonable prices on contracts and should require a breakout of each element of cost, determining each line item, and documenting in its procurement files the cost analysis performed, to determine if prices obtained on contracts are fair and reasonable. PRDE should return to ED \$6,647,500 in unsupported costs and \$1,193,993 in questionable costs. PRDE should also

¹ PRDE is awarded an allotment of Federal funds under Title I of Public Law 103-382, known as "Improving America's School Act", for improving the academic achievement of children with economic disadvantages and help them meet the standards of performance established by the State.

establish controls to ensure payments are made to contractors only after proper documentation is obtained and when charges are determined to be in compliance with Office of Management and Budget (OMB) Circular A-87. Additionally, PRDE should ensure that software purchased is appropriate for elementary school learning centers and that contract objectives are met. PRDE should review two additional 1998/99 Title I contracts awarded to NSSPR totaling \$3,887,194 to ensure that adequate supporting documentation has been provided; and return any questionable amounts to ED. PRDE should also review all current contracts using Federal funds, to determine whether sufficient competition and cost analysis were performed. Lastly, PRDE's 1999 Single Audit report has not been submitted. Prior Single Audit reports have contained repeated findings, including similar findings disclosed in this report. PRDE should take pro-active steps to assure that Single Audit reports are submitted within the required time frames.

PRDE stated it is not in a position to controvert the accuracy of the findings included in this report and does not discard the possibility that irregularities might have taken place in the award and enforcement of contracts during past years. PRDE explained that the new administration has addressed aggressively the irregularities that have been identified in audit reports during recent years. As a result, PRDE stated it has taken significant corrective actions to improve the deficiencies detected in the process of awarding, executing, and enforcing contracts. However, PRDE believes it is impossible to respond properly to the findings in this report without receiving information and documents from the contractor. We reviewed PRDE's response, but our position and recommendations remain unchanged. PRDE should conduct an independent assessment of its new corrective actions to ensure they are sufficient. An excerpt of PRDE's response is attached as Exhibit B.

AUDIT RESULTS

Finding 1

PRDE awarded a \$9,700,000 fixed-price contract without full and open competition

PRDE awarded NSSPR a Title I fixed-price contract totaling \$9,700,000 without full and open competition. PRDE also did not maintain in its procurement records a justification for lack of competition. ED generally permits States, including Puerto Rico, to utilize their procurement policies and procedures for procuring property. Puerto Rico's procurement regulations governing PRDE require that any acquisition of goods, works, and services in excess of \$25,000 must utilize formal competitive procedures. PRDE officials stated that the contract was not competitively bid because the contract was for professional services, and under Puerto Rico law, professional services' contracts do not need competitive bids. However, the services contracted for were primarily for acquisition of equipment and furniture rather than professional services. Because PRDE did not competitively bid the contract, PRDE and ED could not be assured products and services were received at competitive prices or that certain vendors were not given preferential treatment or arbitrarily excluded.

Procurement standards are detailed in 34 Code of Federal Regulations (CFR) § 80.36 (a) as follows: when procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

Puerto Rico's procurement regulations governing PRDE, Reglamento de Compras, Ventas y Subastas de Bienes, Obras y Servicios No Personales del Departamento de Educación, (PRDE Purchasing Regulations) Article 37, requires that any acquisition of goods, works, and services in excess of \$25,000 must utilize formal competitive procedures.

PRDE's Secretary maintained a percentage of Title I funds to develop "special projects." These projects were not advertised for competition. In July 1998, PRDE entered into a contractual agreement totaling \$9,700,000 with NSSPR for the establishment of at least 50 learning centers in Puerto Rico between August 1998 and September 1999. The purpose of the learning centers was to improve the academic achievement of children with economic disadvantages in the areas of English, Spanish, and Mathematics and to help them meet the standards of performance established by the State. According to the agreement, the services to be provided by NSSPR included, but were not limited to the following:

- Purchase, delivery, installation, and configuration of computers and printers;
- Purchase and installation of software;
- Purchase and installation of furniture for the computer centers;
- Purchase and installation of audiovisual equipment;
- Training and technical support to teachers and parents of eligible students and follow-up visits for training and technical support;

- Dissemination of the project through orientation meetings with superintendents, school principals, and the private sector; and
- Any other necessary activity to undertake the purposes of the proposal or requested by PRDE.

Our audit disclosed that PRDE issued the \$9,700,000 contract without full and open competition. As evidenced by the contract, the majority of the services contracted were for purchase and installation of computers, printers, software, furniture, and audiovisual equipment for the learning centers, not for professional services, as stated by PRDE officials. By not issuing the contract with full and open competition, PRDE did not provide alternatives to determine the most economical and practical procurement for the Federal government that maximized the services provided to the students in Puerto Rico's elementary schools.

Lack of competition in its procurement transaction with NSSPR prevented PRDE from assuring that equipment, materials, and services were obtained in an effective manner, selecting the best vendor for best price and quality of services. Furthermore, additional learning centers were to be provided by the contractor if the total cost of the 50 learning centers was less than \$9,700,000. In providing the initial 50 learning centers, NSSPR invoiced PRDE for the total \$9,700,000, resulting in no excess funds remaining for additional learning centers.

Recommendations:

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

- 1.1 Establish controls to ensure all procurement transactions involving Federal funds provide for full and open competition;
- 1.2 Maintain records justifying lack of competition when competitive bids are not obtained, as well as the basis for contractor selection; and
- 1.3 Conduct an independent assessment of its new corrective actions to ensure they are sufficient.

PRDE's response:

PRDE stated it is not in a position to controvert the accuracy of the findings included in this report and does not discard the possibility that irregularities might have taken place in the award and enforcement of contracts during past years. PRDE explained that the new administration has addressed aggressively the irregularities that have been identified in audit reports during recent years. As a result, PRDE stated it has taken significant corrective actions to improve the deficiencies detected in the process of awarding, executing, and enforcing contracts.

OIG's reply:

We reviewed PRDE's response, but our position and recommendations remain unchanged. We added recommendation 1.3 to address the corrective actions PRDE stated would be taken.

Finding 2

PRDE failed to determine each line item of cost included in the fixed-price contract to ensure the contractor's proposed price was fair and reasonable

In 1998, NSSPR submitted to PRDE an \$11,579,964 proposal to implement learning centers at elementary public schools for award year 1998/1999. The proposal included an itemized price list. PRDE evaluated the proposal and requested modifications. In response, NSSPR submitted a second proposal for \$9,700,000, but the proposal did not include an itemized price list. PRDE approved the second proposal without performing a cost analysis, and the \$9,700,000 proposal became the fixed price of the contract. By approving the proposal without determining each element of cost and by not performing a cost analysis of the proposal, PRDE did not ensure it received fair and reasonable prices in accordance with Federal and Puerto Rico laws and regulations.

OMB Circular No. A-87, Attachment A, paragraphs C.1, 2 provide that costs may be charged to a Federal grant only if the costs are, among other requirements, reasonable. In determining the reasonableness of costs consideration must be given to, among other requirements, market prices for comparable goods or services. PRDE's Purchasing Regulations, Articles 6.2, 6.3, provide that austerity is the guiding principle for the procurement process and that the process be competitive, fair, reasonable and economical. Further, Article 59.2 states that if only one bid is received, it is understood that if its price is unreasonable, the bid must be rejected. Further, under PRDE procedures bids are broken down by line item, and Article 50.6 states that if a global price is offered or discounted, that price or discount must be prorated among the various line items.

As stated in Finding 1, PRDE awarded contracts for "special projects" to specialized companies that could provide the proposed services. The Office of External Resources, as well as the Secretary's evaluation committee, evaluated the "special projects." If a proposal was approved with modifications, the revised proposal did not undergo a second evaluation. There was no process to compare proposals to each other.

NSSPR's fixed-price \$9,700,000 contract was a "special project," approved with modifications. As a result, it did not undergo a second evaluation. In addition, a cost analysis was not performed. According to PRDE officials, an item by item price list was not required because the proposed services were viewed as a "concept" of innovative strategies.

Subsequent to invoicing PRDE, NSSPR's parent company, National School Services, Inc., Wheeling, Illinois (NSS-Illinois), appointed a new Comptroller. The new Comptroller was unaware of the basis for the cost of each item invoiced under the \$9,700,000 fixed-price contract. NSSPR's Executive Director agreed that the \$9,700,000 budget presented in the proposal, prepared by NSS-Illinois, should not have been accepted by PRDE without a detailed price list.

PRDE officials stated that PRDE also did not obtain itemized price lists for other contracts with

companies that provided similar services and equipment. Rather, PRDE reviewed the overall cost of the proposed services. Not performing cost analysis in its procurement procedures prevented PRDE from ensuring that prices obtained on contracts were fair and reasonable.

Recommendations:

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

- 2.1 Establish effective procurement procedures in order to ensure it obtains fair and reasonable prices on future contracts;
- 2.2 Require from future contractors a breakout of each element of cost and determine each line item; and
- 2.3 Document in its procurement files the cost analysis performed to determine if prices obtained on future contracts are fair and reasonable.

PRDE's response:

PRDE stated it is not in a position to controvert the accuracy of the findings included in this report and does not discard the possibility that irregularities might have taken place in the award and enforcement of contracts during past years. PRDE explained that the new administration has addressed aggressively the irregularities that have been identified in audit reports during recent years.

OIG's reply:

We reviewed PRDE's response, but our position and recommendations remain unchanged.

Finding 3

PRDE lacked controls to ensure compliance with the contract and Federal regulations

PRDE did not enforce the terms of the contract and therefore paid \$1,193,993 in questionable costs and \$6,647,500 in unsupported costs to NSSPR for the \$9,700,000 fixed-price contract. (See Exhibit A). In addition, PRDE did not identify that NSSPR substituted other computer equipment for that specified in the contract. This occurred because PRDE did not implement controls to oversee contract administration, including compliance with the contract and Federal regulations, and to properly review contractor's invoices for adequate and reliable supporting documentation prior to payment. As a result, PRDE failed to identify contractor's overcharges and deviations from the contract.

According to 34 CFR § 76.702, "*A State and a subgrantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds.*" Further 34 CFR § 80.20(b)(6) provides that "*Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant awards documents, etc.*"

In addition, OMB Circular No. A-87, Attachment B(2)(e)(3) and (18) provides that costs of promotional items, memorabilia, gifts, entertainment, and social activities and any costs directly associated with such costs are unallowable.

PRDE did not ensure compliance with contract requirements and Federal regulations because it paid \$9,700,000 to NSSPR, without ensuring that NSSPR met the delivery requirements of the contract or that it submitted adequate and reliable supporting documentation of costs. For example, NSSPR did not comply with contract clauses such as submitting a contract compliance audit, replacing equipment removed for repair, inventory materials, equipment, and property purchased by NSSPR with Federal funds, and submitting invoices accompanied by evidence that supported the expenses claimed. In addition, NSSPR did not purchase specific brand name equipment, as stipulated in the contract. PRDE's Special Projects' Fiscal Officer stated that once the invoices reached PRDE's Fiscal Division, NSSPR's documentation was verified for delivery of equipment and materials, as well as services provided, and the invoices were math verified, before approving the invoices for payment. As a result, PRDE paid NSSPR \$6,647,500 in unsupported costs, representing costs billed without supporting documentation, and \$1,193,993, representing costs overcharged or based on questionable documentation.

We were unable to reconcile amounts claimed by NSSPR to adequate and reliable supporting documentation because (1) PRDE did not require from NSSPR adequate supporting documentation, and (2) NSS-Illinois submitted to us only narrative descriptions of the expenses claimed instead of original receipts. As a result, the expenses claimed are considered unsupported. For example, supporting documents for costs of materials, equipment costs, costs of software, installation costs, and subscription costs, were not provided by NSSPR.

We also questioned claimed amounts for professional services, computer equipment, software,

warranties, teachers' lunches provided during training sessions, costs related to follow-up projects, and an end-of-year activity. For example, audit tests conducted on teacher attendance rosters supporting four months of professional service charges revealed NSSPR double-billed training provided to schools and over-billed follow-up visits made to the learning centers. In addition, based on vendors' invoices, NSSPR overcharged PRDE for computer equipment and software purchases. For example, we obtained NSS-Illinois's cost from a software vendor for software purchases totaling \$351,250. NSSPR billed PRDE a total of \$465,950 for the same software, resulting in an overcharge of \$114,700 (33 percent). NSSPR also billed \$100,000 for 3-year warranties when computers purchased already included a 3-year warranty from the manufacturer. Although NSS-Illinois provided documentation to support NSSPR's invoices for the end-of-year activity, entertainment costs such as gifts, flowers, seminar participants' supplies, handouts, presentation folders, brochures, and audio visual equipment are not allowed under OMB Circular No. A-87. A complete listing and explanation of the unsupported costs and questionable costs can be found in Exhibit A.

Recommendations:

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

- 3.1 Return to ED \$6,647,500 in unsupported costs and \$1,193,993 in questioned costs;
- 3.2 Establish controls to ensure payments are made only after:
 - proper documentation (vendors' invoices, when appropriate) is obtained from subrecipients/contractors;
 - supervisory review of payments and supporting documentation is conducted; and
 - charges are determined to be in compliance with OMB Circular A-87 and other regulations; and
- 3.3 Provide contract compliance and administrative training to Office of External Resources and Finance Division personnel to ensure they verify supporting documentation.

PRDE's response:

PRDE stated it is not in a position to controvert the accuracy of the findings included in this report and does not discard the possibility that irregularities might have taken place in the award and enforcement of contracts during past years. PRDE explained that the new administration has addressed aggressively the irregularities that have been identified in audit reports during recent years.

OIG's reply:

We reviewed PRDE's response, but our position and recommendations remain unchanged.

Other Matters

- (1) PRDE failed to award properly two additional Title I contracts to NSSPR during the 1998/1999 school year, one for \$2,575,194 and the other for \$1,312,000. Both contracts were also awarded as professional services contracts although they were primarily for the acquisition of equipment, software, and furniture. In addition, PRDE awarded the contracts without full and open competition and failed to negotiate each line item of cost included in the contracts to ensure the contractor's proposed prices were fair and reasonable.
- (2) PRDE did not ensure that the objectives of the 1998/1999 learning centers project were achieved. We found that learning centers did not utilize materials and software provided under this contract and did not teach all three subjects, English, Spanish, and Mathematics, as the contract stipulated. Teachers from various learning centers interviewed stated that some of the software was not utilized because it was too advanced for the students.
- (3) As part of our audit, we examined the draft report of an independent Certified Public Accountant's review, conducted to assist PRDE in monitoring NSSPR's compliance with certain aspects of two contractual agreements executed during the 1995/1996 school year. The report disclosed findings similar to the findings discussed in this report, which have yet to be corrected.
- (4) Because PRDE's Single Audit reports have been historically late, ED lacks the appropriate information to monitor adequately PRDE's administration of ED funds. The reports submitted have contained repeated findings, including similar findings disclosed in this report, which have yet to be corrected. As of January 19, 2001, the 1999 Single Audit report, which was due by March 2000, had not been submitted.

Recommendations:

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

- 4.1 Review two additional 1998/1999 Title I contracts awarded to NSSPR totaling \$3,887,194 to ensure that adequate supporting documentation has been provided and return any questionable amounts to ED;
- 4.2 Review all current PRDE contracts using Federal funds, to determine whether sufficient competition and cost analysis were performed;
- 4.3 Ensure software is appropriate for elementary school learning centers and that contract objectives are met;
- 4.4 Determine why the independent Certified Public Accountant's report was not finalized and why the findings were never corrected; and take appropriate action to correct the findings; and
- 4.5 Take pro-active steps to assure that Single Audit reports are submitted within the required time frames.

PRDE's response:

PRDE stated it is not in a position to controvert the accuracy of the findings included in this report and does not discard the possibility that irregularities might have taken place in the award and enforcement of contracts during past years. PRDE explained that the new administration has addressed aggressively the irregularities that have been identified in audit reports during recent years.

OIG's reply:

We reviewed PRDE's response, but our position and recommendations remain unchanged.

Background

NSSPR is a subsidiary of NSS-Illinois, a private, for-profit corporation located in Wheeling, Illinois. PRDE contracts with NSSPR to provide educational services to Puerto Rico's schools. PRDE's major contracts with NSSPR for the 1998/1999 and 1999/2000 award years funded by Title I Federal ED funds included the following:

1998/1999

1. Elementary School Learning Centers	\$9,700,000
2. High School Learning Centers	2,575,194
3. School Improvement and Professional Development	<u>1,312,000</u>
	<u>\$13,587,194</u>

1999/2000

1. Strengthening the Learning Centers for Teachers of Students at Risk	\$9,500,000
2. Elementary School Learning Centers (Continuation)	500,000
3. School Improvement and Professional Development	<u>1,312,151</u>
	<u>\$11,312,151</u>

The 1998/1999 Elementary School Learning Centers' project represented a collaborative effort between PRDE and NSSPR to provide educational services to Puerto Rico's students, teachers, parents, and the community. Its objectives were to maximize Title I students' academic skills in English, Spanish, and Mathematics through the use of computer technology and other technological resources; to promote parents' participation through the use and management of computer software; and to contribute to the professional development of teachers by strengthening and improving their technical skills.

NSSPR did not maintain any accounting records in its files for the 1998/1999 learning centers contract. NSSPR sent copies of all training attendance rosters and other documentation pertaining to the 1998/1999 learning centers contract to NSS-Illinois and NSS-Illinois then made all billing calculations. As a result, supporting documentation of all expenses billed to PRDE for the 1998/1999 learning centers contract was provided to the auditors by the NSS-Illinois's office through NSSPR's offices.

Scope and Methodology

The purpose of our audit was to determine whether PRDE followed Federal and local laws in procuring services for its 1998/1999 learning centers contract with NSS and ensured that contract requirements were met prior to payment of contractor invoices.

The period of our audit was from August 1, 1998 to September 30, 1999. We performed our fieldwork at NSSPR's offices and PRDE's offices in Hato Rey, Puerto Rico from May 2, 1999 through December 11, 2000. We also made site visits to six learning centers, detailed in the following page.

To achieve the audit objectives, we reviewed NSSPR's financial statements as of December 31, 1999 and 1998. In addition, we examined the draft report of an independent Certified Public

Accountant's review conducted to assist PRDE in monitoring NSSPR's compliance with certain aspects of two contractual agreements executed during the 1995/1996 school year.

We also interviewed officials from PRDE's Office of External Resources and personnel from NSSPR and NSS-Illinois. Furthermore, we made site visits to six learning centers: two learning centers from the Bayamón School District on May 15, 2000; two learning centers, one from the Toa Alta School District and another from the Vega Alta School District on May 17, 2000; and two learning centers from the Corozal School District on May 18, 2000.

Lastly, we traced NSSPR's supporting documentation of its expenses billed to PRDE for the 1998/1999 learning centers contract. To fully test NSSPR's documentation, we obtained source documentation from vendors from whom NSS-Illinois purchased software and equipment. To meet our objectives, we did not use electronic data from PRDE, NSSPR, NSS-Illinois or the U.S. Department of Education for this audit.

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

Qualification of Audit Results

PRDE failed to provide us with a management representation letter. Such a letter acknowledges that management has responsibility for the fair representation of records and reports, and asserts that the auditors have been provided with complete and accurate records. It also states that, to the best of management's knowledge, there have been no irregularities or violations of law or regulation in connection with issues covered in the audit scope.

The failure of PRDE to sign a management representation letter prevents us from completing a required audit step and causes us to qualify any conclusions we have drawn on the basis of the data made available to us.

In addition, we found duplicative attendance rosters submitted to PRDE by NSSPR to support the billings for professional services. As a result, we are unable to render an objective opinion and conclusion on the total amount billed for professional services.

Management Controls

As part of our review, we assessed the system of management controls, policies, procedures, and practices applicable to PRDE's administration of noncompetitive contracts. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of our substantive tests to accomplish our audit objectives.

For the purpose of this report, we identified and classified the significant management controls into the following categories:

- Contract administration
- Payment of contractor's invoices
- Contract performance

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed significant management control weaknesses, which adversely affected PRDE's ability to administer the noncompetitive contracts. These weaknesses included inadequate monitoring of contract requirements and the improper payment of contractor invoices due to inadequate and unreliable supporting documentation. These weaknesses and their effects are fully discussed in the AUDIT RESULTS section of this report.

Puerto Rico Department of Education/ National School Services of Puerto Rico 1998/1999 Community School Learning Centers Project Summary of Questionable Costs and Unsupported Costs					
Notes	Cost Category	Amount Invoiced to PRDE	Accepted Costs	Questionable Costs	Unsupported Costs
1.	Administrative Staff	\$ 60,600			\$ 60,600
2.	Professional Services	655,600	\$ 358,600	\$ 97,000	
3.	Local Travel	50,000			50,000
4.	Materials	905,750			905,750
5.	Equipment	1,569,790	1,117,487	261,863	190,440
6.	Software	3,922,400	351,250	114,700	3,456,450
7.	Installation	1,883,360			1,883,360
8.	Warranties	100,000		100,000	
9.	Lunches for Teachers	50,000	16,170	33,830	
10.	Subscriptions	75,000			75,000
11.	Insurance	15,000	15,000		
12.	Follow-up Projects	338,400		338,400	
13.	End-of-Year Activity	74,100		48,200	25,900
Total		<u>\$9,700,000</u>	<u>\$1,858,507</u>	<u>\$1,193,993</u>	<u>\$6,647,500</u>

Notes:

1. NSS-Illinois submitted only a reconciliation of the administrative staff's charges without evidence to support the costs.
2. Audit tests conducted on teachers' attendance rosters supporting four months' charges revealed NSSPR double-billed training provided to schools and over-billed follow-up visits made to the learning centers, resulting in questionable costs totaling \$99,000 for the four months tested. Based on the four months reviewed, we projected total questionable costs for professional services during the contract period to be \$297,000.
3. NSS-Illinois submitted a narrative description of the amount claimed for local travel with no receipts; NSS-Illinois simply amortized the described amount over the duration of the school year.
4. NSSPR did not provide to PRDE copies of vendors' invoices. NSSPR submitted invoices on NSS-Illinois's letterhead for the materials delivered. As a result, we could not reconcile the expenses claimed to actual vendors' invoices.

5. NSSPR provided “AST” computers to the learning centers despite a stipulation that “Compaq” computers would be provided. In addition, the supporting documentation that NSSPR submitted to PRDE was invoices on NSS-Illinois’s letterhead, not the vendor’s invoices. The claimed amount for computer equipment totaled \$1,569,790. Of this amount, we accepted costs totaling \$1,117,487 because we were able to obtain the vendor’s invoices to NSS-Illinois. Of the remaining amount, \$452,303, NSSPR overcharged PRDE \$261,863, resulting from the difference between NSS-Illinois’s cost and the amount claimed to PRDE, and did not provide adequate and reliable supporting documentation for \$190,440.
6. NSSPR submitted invoices to PRDE for software purchases totaling \$3,922,400 on NSS-Illinois’s letterhead. We obtained NSS-Illinois’s cost from two vendors for various software purchases totaling \$351,250. NSSPR billed PRDE a total of \$465,950 for the same software, resulting in an overcharge of \$114,700 (33 percent). In addition, NSSPR did not provide adequate and reliable supporting documentation for the remaining amount of software purchases billed during the contract period totaling \$3,456,450.
7. NSS-Illinois provided only descriptive evidence of the amount claimed to PRDE with no receipts. Furthermore, NSSPR also charged for installation under professional services, resulting in double billings for installation charges.
8. NSSPR billed \$100,000 for 3-year warranties when computers purchased included a 3-year warranty from the manufacturer.
9. NSSPR billed \$50,000 for lunches provided to teachers during training. However, two schools, which hosted training sessions, reported NSSPR reimbursed the school \$6 per teacher. NSSPR charged PRDE for lunches for seven months, December 1998 through June 1999. Using questionable attendance rosters used to support professional services (see note 2), we estimated that approximately 385 teachers attended training per month, resulting in an estimated overcharge of \$33,830.
10. NSSPR billed \$75,000 for subscriptions but did not provide receipts of the amount claimed. As a result, we could not reconcile claimed amounts to adequate and reliable supporting documentation.
11. NSS-Illinois provided reliable documentation for the amount of insurance claimed.
12. NSSPR billed \$338,400 for “follow-up projects”, which represented a flat rate of \$400 per computer per month for computer maintenance and repair of 846 computers installed over a three-year period. However, not all of the 846 computers in operation at the learning centers had to be repaired due to mechanical problems. As a result, we were unable to reconcile claimed amounts to adequate and reliable supporting documentation. Furthermore, NSSPR included additional charges for follow-up visits under the professional services and installation categories.
13. Although NSS-Illinois provided supporting documentation for the end-of-year activity, \$48,200 represented costs for entertainment, which are not allowed under OMB Circular No. A-87. In addition, NSS-Illinois did not provide adequate and reliable supporting

documentation for training offered during the activity totaling \$25,900.



COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF EDUCATION

OFFICE OF THE AUDITOR

MAR 21 2001

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

RE: ACN A01-A0004

Dear Mr. Schultz:

This is in reference to the draft audit report entitled Puerto Rico Department of Education did not administer properly a \$9,700,000 contract with National School Services of Puerto Rico.

The PRDE believes that it is impossible to properly respond to the findings without receiving information and documents from the contractor. We also understand that it is indispensable to have the specifics of the findings in order to provide a proper response. On March 16, 2001 we requested a sixty (60) day extension to provide our response. We were informed yesterday evening that the request had been denied.

As you are aware, the PRDE is operating under a new administration. We assure you that applicable federal laws and regulations will be respected. Since our designation we have aggressively addressed the irregularities that have been identified during recent years. We are not in a position to controvert the accuracy of the findings included in your report nor do we discard the possibility that irregularities might have taken place in the award and enforcement of contracts during the past years.

But we want you to know that since our arrival, we have taken significant corrective actions to improve the deficiencies detected in the process of awarding, executing, and enforcing contracts. Attachments A-H.

Mr. Daniel Schultz
Page 2

The PRDE would be unduly hardships if we are required to return \$7,841,153 as recommended by the Office of the Inspector General. The reimbursement of such an amount would have devastating consequences for our educational system. We truly believe that our children should not be punished for a situation that as deplorable as it may be, cannot be changed.

We ask you to consider our efforts and our pledge that federal requirements will be strictly observed by this administration. With this in mind we request that you please consider not enforcing your recommendation that the PRDE return the amount previously mentioned.

Please do not hesitate to contact us if you need additional information.

Cordially,



César A. Rey Hernández Ph.D.
Secretary
Puerto Rico Department of Education

REPORT DISTRIBUTION LIST

AUDIT CONTROL NO. A01-A0004

Auditee

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