

FINAL AUDIT REPORT

**Puerto Rico Department of Education
Did Not Administer Properly Title I Contracts
With National School Services of Puerto Rico
For the 1999/2000 and 2000/2001 School Years**



FINAL AUDIT REPORT

**ED-OIG/A02-B0012
September 2001**

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

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Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

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UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

SEP 28 2001

THE INSPECTOR GENERAL

ED-OIG/A02-B0012

Honorable César A. Rey - Hernández
Secretary of Education
Puerto Rico Department of Education
Calle Teniente González
Urb. Tres Monjitas Esq. Calle Calaf - 12 Floor
San Juan, Puerto Rico 00919

Dear Secretary César A. Rey - Hernández:

Attached is our report entitled *Puerto Rico Department of Education Did Not Administer Properly Title I Contracts With National School Services of Puerto Rico For the 1999/2000 and 2000/2001 School Years*. The report incorporates the comments you provided in response to the draft audit report. If you have any additional comments or information that 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 final Departmental action on the audit:

Susan B. Neuman
Assistant Secretary for Elementary and Secondary Education
U.S. Department of Education
400 Maryland Avenue, 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 (5 U.S.C. §552), 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 exemptions in the Act.

Sincerely,

Lorraine Lewis

Attachment

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

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Executive Summary

Puerto Rico Department of Education (PRDE) failed to award properly four Title I¹ fixed-price contracts totaling \$17,205,657 to establish learning centers in Puerto Rico's 84 school districts and carry out school improvement and professional development activities at needy elementary schools during the 1999/2000 and 2000/2001 school years. PRDE awarded the contracts 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 contracts. In April and May 2001, subsequent to the start of our audit, PRDE canceled two of the contracts totaling \$6,393,506. Because PRDE did not competitively bid the contracts, 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, as provided for under the terms of the contracts.

PRDE also did not enforce the terms of the contracts. For example, PRDE did not adequately review NSSPR's invoices for supporting documentation of costs claimed or for adherence to the contracts prior to payment. As a result, PRDE paid \$1,324,825 in questionable costs and \$7,087,455 in unsupported costs to NSSPR for the two executed contracts. In addition, PRDE did not ensure NSSPR established all learning centers as required, resulting in computer and audiovisual equipment, desks, books, and software remaining boxed in unsuitable facilities in school districts. PRDE did not obtain a contract compliance audit from NSSPR and did not identify that NSSPR's proposed training failed to incorporate the purpose of the learning centers, resulting in most of the software and materials being left unused. 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 contracts.

In March 2001, we issued an audit report regarding a PRDE contract with NSSPR for the 1998/1999 school year that contained similar findings and recommendations. We again 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 full and open competition and maintain records justifying the lack of competition when competitive bids are not obtained, as well as the basis for contractor selection. In addition, PRDE should establish effective procurement procedures to ensure it obtains fair and reasonable prices on contracts and should require a breakout of each element of cost, determining each line item of cost, 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 \$7,087,455 in unsupported costs and \$1,324,825 in questionable costs. PRDE should also establish controls to ensure payments are made to contractors only after proper documentation is obtained and

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 to help them meet the standards of performance established by the State.

supervisory review of payments and supporting documentation is conducted. Additionally, PRDE should ensure that contract objectives are met. Lastly, PRDE's 2000 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 all necessary steps to assure that Single Audit reports are submitted within the required time frames.

PRDE believes that because the allegations contained in this report pertain to a prior Administration, the only equitable means to resolve the issues contained in the draft audit report is through the Cooperative Audit Resolutions and Oversight Initiative (CAROI) process. PRDE would like to engage in the collaborative nature of the CAROI process to remedy the issues raised in the audit, rather than engaging in the costly and the lengthy litigation process. PRDE provided examples of its efforts to improve Federal grants management oversight, including issuing letters to personnel regarding the importance of processing requisitions, contracts and purchase orders in a timely fashion to ensure compliance with Federal regulations. PRDE believes a vast injustice would be served upon PRDE if the monetary findings were sustained because significant repayment of funds would harm the very students PRDE serves.

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. PRDE's response is attached as **Exhibit D**.

AUDIT RESULTS

Finding 1

PRDE awarded fixed-price contracts totaling \$17,205,657 to National School Services of Puerto Rico without full and open competition

PRDE awarded NSSPR four Title I fixed-price contracts totaling \$17,205,657 without full and open competition. PRDE also did not maintain in its procurement records a justification for the lack of competition for the four contracts. PRDE subsequently canceled two of the contracts totaling \$6,393,506. 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 agreed the contracts were not competitively bid but stated it occurred under PRDE's prior administration. Because PRDE did not competitively bid the contracts, 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 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.

On November 15, 1999, PRDE entered into a contractual agreement with NSSPR totaling \$9,500,000 to establish learning centers in Puerto Rico's 84 school districts between November 1999 and July 2000. The period was subsequently extended through November 2000. The purpose of the learning centers was to provide training to school districts' superintendents and their personnel in order to improve their professional skills. They in turn were to provide training to the teachers. 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;
- 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.

On July 30, 1999, PRDE entered into a contractual agreement with NSSPR for another contract totaling \$1,312,151 to carry out professional development activities at needy Puerto Rico elementary schools during the 1999/2000 school year. The period was subsequently extended through September 30, 2000. NSSPR invoiced the total amount contracted, \$1,312,151. According to the agreement, the services to be provided by NSSPR included, but were not limited to the following:²

- Purchase, delivery, installation, and configuration of computers and printers;
- Purchase and installation of software;
- Training and technical support to teachers and parents of eligible students;
- Dissemination of the project through orientation meetings with superintendents, school principals, and the private sector;
- Satellite broadcasts of conferences; and
- Any other necessary activity to undertake the purposes of the proposal or requested by PRDE.

On October 27, 2000, PRDE entered into contractual agreements totaling \$6,363,506 with NSSPR for the 2000/2001 school year. One contract, for \$5,081,355, was to assist the learning centers established in the 84 school districts during the 1999/2000 school year. The second contract, for \$1,312,151, was to provide training and technical assistance for school improvement and professional development at Title I schools. PRDE canceled these contracts, on April 15, 2001 and May 6, 2001, respectively, subsequent to the start of our audit.

Our audit disclosed that PRDE issued the four contracts without full and open competition. PRDE officials agreed that the contracts were not competitively bid. Since each of these contracts was for the acquisition of goods and services in excess of \$25,000, PRDE should have utilized formal competitive procedures. For example, in the 1999/2000 \$9,500,000 contract, 84 percent of the contract amount was for the purchase and installation of computers, printers, software, furniture, and audiovisual equipment for the learning centers.

By not issuing the contracts 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. In addition, the lack of competition in its procurement transactions 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.

Recommendations:

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

² Although the stated purpose of this contract was to carry out professional development activities at needy Puerto Rico elementary schools, the services specified in the contract were the same as those listed in the \$9,500,000 contract for installing learning centers.

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

PRDE's response:

PRDE believes because the allegations contained in this report pertain to a prior Administration, the only equitable means to resolve the issues contained in the draft audit report is through the CAROI process. PRDE provided examples of its efforts to improve Federal grants management oversight, including establishing a reengineering team to streamline the proposal evaluation process and comply with Federal regulations.

OIG's reply:

The request for this audit to be resolved through the CAROI process may be considered by the Assistant Secretary for Elementary and Secondary Education as part of the audit resolution process. Our findings and recommendations remain unchanged, except we added recommendation 1.3 to address corrective actions PRDE stated would be taken.

Finding 2

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

PRDE did not obtain an itemized price list for any of its four contracts with NSSPR. PRDE approved the proposals without determining each element of cost or performing a cost analysis of the proposals. As a result, PRDE did not ensure it received fair and reasonable prices in accordance with Federal and Puerto Rico laws and regulations for the four contracts.

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 and 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 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. In the contracts, NSSPR also warranted that the prices of computers, printers, and furniture to be acquired and the fees and services rendered would be the same or lower than prevailing prices for similar goods and services in Puerto Rico.

Our audit disclosed that PRDE did not perform a cost analysis on any of the four NSSPR's fixed-price contracts totaling \$17,205,657. By not performing a cost analysis in its procurement procedures, PRDE could not ensure that prices obtained on the contracts were fair and reasonable, or that the amounts billed complied with contractual requirements.

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 a breakout of each element of cost from future contractors and determine each line item of cost; 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 believes because the allegations contained in this report pertain to a prior Administration, the only equitable means to resolve the issues contained in the draft audit report is through the

CAROI process. PRDE provided examples of its efforts to improve Federal grants management oversight, including conducting training for all Office of Federal Affairs personnel on the requirements of OMB Circular A-87 and Federal programs administered by the office.

OIG's reply:

The request for this audit to be resolved through the CAROI process may be considered by the Assistant Secretary for Elementary and Secondary Education as part of the audit resolution process. Our findings and recommendations remain unchanged.

Finding 3

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

PRDE did not enforce the terms of the contracts and, therefore, paid \$1,324,825 in questionable costs and \$7,087,455 in unsupported costs to NSSPR for the \$9,500,000 and \$1,312,151 fixed-price contracts awarded during the 1999/2000 school year.³ (See Exhibits A and B). In addition, PRDE did not identify that NSSPR did not establish learning centers in four school districts. (See Exhibit C). This occurred because PRDE did not implement controls to oversee contract administration, including compliance with the contracts and Federal regulations, and to properly review contractor's invoices for adequate and reliable supporting documentation prior to payment.

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) states that, "Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."

\$9,500,000 Contract – "Strengthening the Learning Centers for Teachers of Students at Risk"

PRDE did not ensure compliance with contract requirements and Federal regulations because it paid \$9,500,000 to NSSPR without ensuring that NSSPR met the delivery requirements of the contract or that it submitted adequate and reliable supporting documentation of costs claimed. PRDE paid NSSPR \$1,324,825 in questionable costs and \$5,775,304 in unsupported costs for the contract. In addition, NSSPR did not submit supporting documentation required by the contract for local travel expenses, materials purchased, installation charges, subscription expenses, and insurance expenses. We were unable to obtain supporting documentation for seven months of training billed under the billing category entitled "professional services." Yet, audit tests conducted on training attendance rosters supporting five months of "professional services" revealed NSSPR incorrectly billed for training. Based on third party invoices we were able to obtain, NSSPR overcharged PRDE for computer equipment, software, photocopy machines, projectors, students' chairs, white boards, storage cabinets, and air conditioners. NSSPR also billed PRDE for photocopier maintenance even though it did not purchase a maintenance contract from the vendor and for installation costs for 84 learning centers even though it failed to install the equipment at four of the centers.

We made site visits to 12 school districts and found that the equipment, software, and materials

³ As of June 19, 2001, NSSPR had not submitted invoices for the \$5,081,355 and \$1,312,151 fixed-price contracts awarded during the 2000/2001 school year, which were also included in our review. PRDE cancelled both contracts effective April 15, 2001 and May 6, 2001, respectively.

had been delivered. The learning centers at four of the school districts had not been installed. We also found that the equipment had not been stored in a safe and adequate area in two of the four school districts. **(See Exhibit C for examples of the condition of learning centers not installed by NSSPR)**. For example, NSSPR delivered the equipment to the Culebra school district in September 2000. As of May 30, 2001, the learning center had not been installed. NSSPR delivered the equipment to the Bayamón II school district in November 2000. As of May 29, 2001, the center had not been installed and the equipment was stored in an unsuitable building. The facility contained broken windows and the building had Puerto Rico Occupational Safety and Health Office violations for air quality due to mold and mildew.

Because PRDE did not evaluate the proposal, PRDE did not identify that the training proposed by NSSPR did not correspond to the purpose of the learning centers. Instead of providing training related to the equipment and software purchased for the learning centers, NSSPR provided training related to general educational subjects such as “Effective Teaching and Assessment” and “Evaluation Techniques,” consequently most of the software and materials remained unused.

We questioned claimed amounts for training or “professional services,” equipment, software, and maintenance. For example, audit tests conducted on attendance rosters supporting five months of “professional services” revealed NSSPR over-billed \$95,200 for training. In addition, based on vendors’ invoices, NSSPR overcharged PRDE for equipment and software. For example, we obtained NSSPR’s parent company, National School Services Inc., Wheeling, Illinois (NSS-Illinois) and NSSPR’s cost from vendors for photocopy machines, projectors, computer equipment, students’ chairs, white boards, storage cabinets, and air conditioners totaling \$1,820,219. NSSPR billed PRDE a total of \$2,657,224 for the same equipment, resulting in an overcharge of \$837,005 (46 percent). In addition, we obtained NSS-Illinois’s cost from a vendor for software purchases totaling \$68,372. NSSPR billed PRDE \$172,872 for the same software, resulting in an overcharge of \$104,500 (153 percent). NSSPR billed PRDE \$176,400 for the purchase of software that was already included in the 840 computers acquired, resulting in software overcharges totaling \$280,900. Moreover, NSSPR billed \$111,720 for photocopier maintenance even though it did not purchase a maintenance contract from the vendor.

NSSPR also billed PRDE \$60,969 for local travel, \$887,403 for materials, \$937,588 for installation, \$31,500 for subscriptions, and \$15,900 for insurance. NSSPR did not submit to PRDE evidence to support the amounts claimed. As a result we considered the amounts claimed as unsupported. **(See Exhibit A)**.

\$1,312,151 Contract – “School Improvement and Professional Development”

PRDE paid NSSPR the total amount of the 1999/2000 \$1,312,151 contract. However, we considered the total amount claimed by NSSPR as unsupported because we were unable to obtain adequate and reliable supporting documentation of costs claimed. For example, the supporting documentation that NSSPR provided for materials and software purchases was invoices on NSS-Illinois’s and/or another subsidiary’s letterhead. There were no invoices from the original vendors from whom NSSPR or NSS-Illinois purchased the materials and software. In addition, we were not able to obtain supporting documentation for “professional services,” local travel,

follow-up projects, subscriptions, surveys, lunches for teachers, and insurance. Moreover, NSSPR's invoice for the month of January 2000, did not include any supporting documentation of costs claimed, although PRDE paid the invoice. (See Exhibit B).

General non-compliance with contracts

Although required by the contracts, NSSPR did not:

- Submit comprehensive work schedules for the development of the proposals and specifications of all equipment planned for purchase;
- Submit quarterly and annual reports; and
- Submit audits by independent certified public accountants licensed to practice in Puerto Rico consisting of financial audits and contract-compliance audits.

In addition, for the 1999/2000, \$9,500,000 contract, NSSPR did not replace defective equipment and did not inventory materials, equipment, and property purchased with Federal funds.

Recommendations:

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

- 3.1 Return to ED \$7,087,455 in unsupported costs and \$1,324,825 in questionable costs;
- 3.2 Establish controls to ensure payments are made only after:
 - proper documentation (vendors' invoices, when appropriate) is obtained from subrecipients/contractors, including documentation identifying that the learning centers were properly established;
 - supervisory review of payments and supporting documentation is conducted.
- 3.3 Provide contract compliance and administrative training to Office of External Resources and Finance Division personnel to ensure they verify supporting documentation; and
- 3.4 Ensure that contracted training is directly related to the purpose of the award.

PRDE's response:

PRDE believes because the allegations contained in this report pertain to a prior Administration, the only equitable means to resolve the issues contained in the draft audit report is through the CAROI process. PRDE would like to engage in the collaborative nature of the CAROI process rather than engaging in the costly and lengthy litigation process. PRDE provided examples of its efforts to improve Federal grants management oversight, including issuing letters to personnel regarding the importance of processing requisitions, contracts and purchase orders in a timely fashion to ensure compliance with Federal regulations. However, PRDE believes a vast injustice would be served upon PRDE if the monetary findings were sustained because significant repayment of funds would harm the very students PRDE serves.

OIG's reply:

The request for this audit to be resolved through the CAROI process may be considered by the

Assistant Secretary for Elementary and Secondary Education as part of the audit resolution process. Our findings and recommendations remain unchanged.

Other Matters

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 September 24, 2001, the 2000 Single Audit report remains outstanding.

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 is both the State Educational Agency and Local Educational Agency in Puerto Rico. During the 1999/2000 and 2000/2001 school years, PRDE reserved Title I funds to carry out professional development activities at needy Puerto Rico elementary schools. To this end, PRDE contracted with NSSPR to provide training and consultant services at Title I schools.

PRDE's major contracts with NSSPR for the 1999/2000 and 2000/2001 award years funded with Title I funds included the following:

1999/2000

Strengthening the Learning Centers for Teachers of Students at Risk	\$9,500,000
School Improvement and Professional Development	<u>1,312,151</u>
	<u>\$10,812,151</u>

2000/2001

Strengthening the Districts' Technology Service Centers for Teachers of Students at Risk	\$5,081,355
School Improvement and Professional Development	<u>1,312,151</u>
	<u>\$6,393,506</u>

The purpose of the 1999/2000 and 2000/2001 Strengthening the Learning Centers for Teachers of Students at Risk projects was to establish modern technological resources and materials at Laboratory Learning Centers already existing in 84 Puerto Rico school districts and assist the school districts in order to reinforce and enrich the teaching-learning process.

An ED-OIG audit report issued in March 2001, disclosed that PRDE did not administer properly a Title I, \$9,700,000 contract with NSSPR for the 1998/1999 school year. As a result, PRDE paid \$1,193,993 in questionable costs and \$6,647,500 in unsupported costs to NSSPR for the contract.

Methodology and scope

The purpose of our audit was to determine whether PRDE followed Federal and local laws in procuring services for its 1999/2000 and 2000/2001 Title I contracts with NSSPR and ensured that contract requirements were met prior to payment of contractor's invoices.

The period of our audit was from July 30, 1999 through July 31, 2001. Because PRDE cancelled two contracts awarded during the 2000/2001 school year, we limited the period through May 6, 2001, the date the last contract was cancelled. We performed our fieldwork at PRDE's offices in Hato Rey, Puerto Rico from February 23, 2001 through June 19, 2001. We also made site visits to 12 school districts: the Gurabo, Las Piedras, and Humacao school districts on November 29, 2000; the Cataño school district on November 30, 2000; the Ciales school district on May 5,

2001; the Toa Alta, Toa Baja, and Comerío school districts on May 8, 2001; the Bayamón II school district on May 29, 2001; the Culebra school district on May 30, 2001; the Vieques school district on June 5, 2001; and the Naranjito school district on June 13, 2001.

To achieve the audit objectives, we interviewed officials from PRDE's Office of External Resources and school teachers and district administrators. Lastly, we traced NSSPR's supporting documentation of its expenses billed to PRDE for the two executed 1999/2000 Title I contracts. To fully test NSSPR's documentation, we obtained source documentation from vendors from whom NSS-Illinois and NSSPR purchased software and equipment.

At our request, PRDE requested the supporting documentation from NSSPR on March 6, 2001, but, the documentation was not provided.

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

Qualification of Audit Results

We found duplicate 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.

Data reliability assessment

To meet our objectives, we did not use electronic data from PRDE, NSSPR, NSS-Illinois or ED for this audit.

Management controls

We did not review the management control structure of PRDE. We previously reviewed the management control structure and reported our opinion in our report dated March 28, 2001, entitled *Puerto Rico Department of Education Did Not Administer Properly a \$9,700,000 Contract With National School Services of Puerto Rico*. Our report herein, insofar as it relates to the system of management control structure is based solely on our report *Puerto Rico Department of Education Did Not Administer Properly a \$9,700,000 Contract With National School Services of Puerto Rico*.

Puerto Rico Department of Education/ National School Services of Puerto Rico
1999/2000 Strengthening the Learning Centers for Teachers of
Students at Risk Project
Summary of Questioned Costs and Unsupported Costs

Notes	Cost Category	Amount Invoiced to PRDE	Accepted Costs	Questionable Costs	Unsupported Costs
1.	Professional Services	\$ 1,217,576	\$ 484,000	\$ 95,200	\$ 646,376
2.	Local Travel	60,969			60,969
3.	Materials	887,403			887,403
4.	Equipment	4,219,055	1,820,219	837,005	1,561,831
5.	Software	1,983,009	68,372	280,900	1,633,737
6.	Installation	937,588			937,588
7.	Maintenance	111,720		111,720	
8.	Lunches for Teachers	35,280	35,280		
9.	Subscriptions	31,500			31,500
10.	Insurance	15,900			15,900
Total		<u>\$9,500,000</u>	<u>\$2,407,871</u>	<u>\$1,324,825</u>	<u>\$5,775,304</u>

Notes:

1. NSSPR billed PRDE \$1,217,576 for “professional services” during the contract period. PRDE provided monthly reports containing training attendance rosters that supported “professional services” charges for the months of January through May 2000. Audit tests conducted on the training attendance rosters revealed NSSPR over-billed \$95,200 for training. We were unable to obtain supporting documentation for \$646,376, the remaining amount of “professional services” billed during the contract period. We also identified \$8,000, which NSSPR did not bill to PRDE for 10 training sessions. As a result, we have included the \$8,000 in the accepted costs.
2. NSSPR billed \$60,969 for local travel expenses but did not submit to PRDE evidence to support the costs. As a result, we were unable to reconcile claimed amounts to adequate and reliable supporting documentation.
3. NSSPR billed \$887,403 for materials. NSSPR’s supporting documentation was invoices on NSS-Illinois’s or another subsidiary’s letterhead, not vendors’ invoices. As a result, we were unable to reconcile claimed amounts to adequate and reliable supporting documentation.
4. NSSPR submitted invoices to PRDE for equipment purchases totaling \$4,219,055 on NSS-

Illinois's letterhead. We obtained NSSPR's costs for photocopy machines, projectors, computer equipment, student chairs, white boards, storage cabinets and air conditioners totaling \$1,820,219 from the vendors. NSSPR billed PRDE \$2,657,224 for the same equipment, resulting in an overcharge of \$837,005 (46 percent). In addition, NSSPR did not provide adequate and reliable supporting documentation for \$1,561,831, the remaining amount of equipment purchases billed during the contract period.

5. NSSPR billed \$1,983,009 for software purchases. NSSPR's supporting documentation submitted to PRDE was invoices on NSS-Illinois's or another subsidiary's letterhead, not vendors' invoices. We obtained from its vendors, NSSPR's cost for software totaling \$68,372. NSSPR billed PRDE \$172,872 for the same software, resulting in an overcharge of \$104,500. In addition, NSSPR billed PRDE \$176,400 for the purchase of the Microsoft Office 2000[®] software. However, audit tests revealed that the 840 computers acquired already included the software. As a result, NSSPR overcharged PRDE \$280,900 for software purchases. In addition, NSSPR did not provide adequate and reliable supporting documentation for \$1,633,737, the remaining amount of software purchases billed during the contract period.
6. NSSPR billed PRDE \$937,588 for installation costs for all the 84 centers even though it failed to install the equipment at four centers. In addition, NSSPR did not provide supporting documentation for the installation costs billed during the contract period.
7. NSSPR invoiced PRDE a total of \$111,720 for photocopier maintenance even though it did not purchase a maintenance contract from the vendor.
8. NSSPR billed PRDE \$35,280 for lunches provided to teachers during training sessions. However, NSSPR did not provide evidence of the amounts claimed. Based on our site visits to 12 school districts, we determined that NSSPR provided between \$300 and \$450 to 7 of the 12 school districts to cover lunches provided to teachers during training sessions. As a result, we accepted the total amount claimed for teachers' lunches during the contract period.
9. NSSPR billed \$31,500 for subscriptions but did not provide receipts of the amounts claimed.
10. NSSPR did not provide supporting documentation for \$15,900, amount claimed for insurance during the contract period.

Puerto Rico Department of Education
1999/2000 School Improvement and Professional Development Project
Summary of Unsupported Costs

Notes	Cost Category	Amount Invoiced to PRDE	Unsupported Costs
	Professional Services	\$ 542,700	\$ 542,700
	Local Travel	32,047	32,047
	Materials	271,695	271,695
	Software	208,800	208,800
	Follow-up Projects	25,200	25,200
	Subscriptions	83,250	83,250
	Surveys	41,500	41,500
	Lunches for Teachers	18,000	18,000
	Insurance	3,000	3,000
1.	Unsupported Costs Billed	85,959	85,959
	Total	<u>\$1,312,151</u>	<u>\$1,312,151</u>

Note:

1. The total of each cost category is understated because NSSPR did not identify in one of its invoices to PRDE totaling \$85,959 the breakdown by cost category.

Learning Centers Not Installed



Culebra School District's Learning Center -
Equipment received in September 2000, as of May 30, 2001, equipment remained boxed.



Bayamón II School District's Learning Center -
Equipment received in November 2000, as of May 29, 2001, equipment remained boxed.

**Response to Draft Audit Report: ED-OIG/A02-B0012
September 21, 2001**

**SUBMITTED BY:
Cesar A. Rey Hernández, Ph.D., Secretary
Puerto Rico Department of Education**

**ON BEHALF OF:
Puerto Rico Department of Education**

To:
Daniel Schultz
c/o Maureen Duddy
U.S. Department of Education
Office of Inspector General
J.W. McCormack
Post Office and Courthouse Building, Room 504
Boston, MA 02109

On August 16, 2001, the United States Department of Education, Office of Inspector General, issued Draft Audit Report Control Number ED-OIG/A02-B0012.

Because the allegations contained in the report pertain to a prior Administration, the current Administration of the Puerto Rico Department of Education (PRDE), which has been working diligently and in good faith to improve the federal grants management process, believes the only equitable means to resolve the issues contained in the draft audit report is through the Cooperative Audit Resolution and Oversight Initiative (CAROI) process.

The current Administration can demonstrate that it has been actively working to strengthen and improve the federal grants management process at the Puerto Rico Department of Education and would welcome additional assistance from the U.S. Department of Education in this endeavor. Accordingly, the PRDE would like to engage in the collaborative nature of the CAROI process to remedy the issues raised by the USDE in the draft audit, rather than engaging in a costly and lengthy litigation process. The stated goal of the CAROI process is "to improve education programs and student performance at state and local levels through better use of audits, monitoring, and technical assistance." These are also the goals of the current Administration of the Puerto Rico Department of Education.

As part of our effort to improve the federal grants management situation, the PRDE has commenced the process of implementing effective internal controls over federal funds. An essential part of the process is determining where the specific weaknesses exist with regard to the proper oversight of federal funds. Examples of the effort to improve federal grants management oversight include:

- letters to all the personnel in the Office of Federal Affairs regarding the importance of processing requisitions, contracts, and purchase orders in a timely fashion to ensure compliance with USDE regulations.
- a letter to the Division of Finance regarding the importance of expediting transactions between the Division of Finance and the Office of Federal Affairs to ensure compliance with federal requirements. This letter resulted in a useful dialogue between the Finance Division and the Office of Federal Affairs and increased communication between the two offices. The Office of Federal Affairs subsequently established a 10-day deadline for approval of all invoices and transactions by the Director of the Office of Federal Affairs.
- conducting monitoring visits upon contractors that were designated as Title I “special projects” by the previous Administration to ensure that these contractors are carrying out activities in compliance with federal laws and complying with grants management requirements.
- a letter to program officers and fiscal personnel about the importance of reviewing supporting documentation and invoices in the context of applicable federal laws before approval.
- conducting trainings for all Office of Federal Affairs personnel on the requirements of OMB Circular A-87 and the federal programs administered by the office.
- termination of many of the prior Administration’s contracts because of the contractor’s failure to comply with procurement requirements
- establishment of forms and procedures designed to keep a reliable record of invoices and fund requests.
- establishing a reengineering team to streamline the proposal evaluation process and comply with federal regulations.

The above examples demonstrate the good faith efforts that the new Administration of the PRDE has undertaken to implement more effective controls of the federal grants management system. As part of the CAROI process, the PRDE would welcome additional federal assistance in strengthening PRDE’s internal controls. PRDE seeks to remove any obstacles that may exist to improve the performance of federal

programs and to ensure that any violations of federal grants management standards do not recur.

The PRDE believes that the U.S. Department of Education could provide valuable technical assistance, training, and other guidance that would assist PRDE's efforts to restructure the federal grants management process in Puerto Rico. The PRDE is happy to work with the Office of Inspector General, USDE Program Offices, and other appropriate officials to resolve the issues in the draft audit report and to strengthen federal grants oversight at the Puerto Rico Department of Education.

However, we believe a vast injustice would be served upon the PRDE if the monetary findings contained in the draft audit report were sustained at their current levels, and resulted in the significant repayment of funds. The most important duty of the Puerto Rico Department of Education is to protect and educate our students. Significant repayment of funds would harm the very students the PRDE serves. If the USDE's monetary repayment requests cannot be significantly reduced, the PRDE would have to continue this case via litigation, which would be both costly and time-consuming. The PRDE would rather focus its efforts on improving the grant oversight process with the help of the U.S. Department of Education, rather than opposing the U.S. Department of Education in litigation. Accordingly, the CAROI process would bring about not only the most equitable resolution to the current situation, but also the most expedient.

We look forward to working with U.S. Department of Education officials in the future regarding this matter.

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 Regions I through IX