
Puerto Rico Department of Education's Administration of Title I Services Provided to Private School Students

FINAL AUDIT REPORT



ED-OIG/A04H0017
October 2008

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U.S. Department of Education
Office of Inspector General

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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services
Region IV

October 9, 2008

Control Number
ED-OIG/A04H0017

Honorable Rafael Aragunde-Torres
Secretary
Puerto Rico Department of Education
P.O. Box 190759
San Juan, Puerto Rico 00919-0759

Dear Secretary Aragunde-Torres:

Enclosed is our final audit report, Control Number ED-OIG/A04H0017, entitled *Puerto Rico Department of Education's Administration of Title I Services Provided to Private School Students*. This report incorporates the comments you provided in response to the draft 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 this audit.

Kerri L. Briggs
Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Avenue, SW
Washington, D.C. 20202

It is the policy of the U. S. Department of Education 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 appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

/s/

Denise M. Wempe
Regional Inspector General for Audit

Enclosures

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EXECUTIVE SUMMARY

The objective of the audit was to determine if the Puerto Rico Department of Education (PRDE) administered Title I services provided to private school students, their teachers, and their parents through contracts awarded to NETS,¹ Braxton,² and COSEY,³ in compliance with Title I requirements. Specifically, we determined if PRDE 1) monitored the contractors for compliance; 2) ensured that the costs claimed by the contractors were allowable and followed contract requirements; 3) properly allocated Title I funds for services to eligible private school students; 4) properly accounted for Title I funds used to purchase property and equipment; and 5) consulted with private school officials to determine the needs of eligible children and the services to be provided.

We found that PRDE did not adequately administer Title I services provided to private school students, their teachers, and their parents through contracts awarded to NETS, Braxton, and COSEY during the 2006-2007 award year in compliance with Title I requirements. Specifically, PRDE 1) did not properly monitor the contractors for compliance before paying them \$17,998,543 and, as a result, paid at least \$365,089 in costs that were not supported with adequate and reliable documentation, \$16,800 in excessive charges, and \$892 in unallowable costs; 2) allocated \$430,897 in Title I funds for services to parents of participating private school students in excess of the entitlement for parental involvement; 3) did not account for \$8,036 in Title I property and equipment purchased by the contractors during the 2006-2007 award year; and 4) did not consistently consult with private school officials prior to providing services.

We recommend that the Assistant Secretary for Elementary and Secondary Education (OESE) require PRDE to—

- Review the contractors' supporting documentation to ensure compliance with Title I requirements for payments made without proper contract monitoring, including the \$365,089 identified in Finding No. 1 as not supported with adequate and reliable documentation; and return to the U.S. Department of Education (Department) all unallowable costs paid;
- Return to the Department the \$16,800 in excessive charges and \$892 in unallowable costs paid;
- Ensure that proper supporting documentation and reports submitted by contractors are reviewed prior to making payments to ascertain that the services reported were actually provided and funds were used in compliance with contract deliverables and Title I regulations; and develop adequate internal controls and assign the staff necessary to properly monitor the contractors;

¹ National Educational and Technological Services, Inc.

² Braxton School of Puerto Rico, Inc.

³ Corporación de Servicios Educativos de Yabucoa.

- Return to the Department the \$430,897 in Title I funds allocated for services to parents of participating private school students in excess of the entitlement for parental involvement activities for the 2006-2007 award year; re-calculate the amount of Title I funds that should have been properly allocated for all years back to 2001, and return to the Department the amount allocated for parental involvement for parents of participating private school students in excess of the entitlement during those years; and implement adequate internal controls and develop standard written procedures to ensure that future parental involvement allocations for parents of both public and private school students are made in compliance with Title I requirements;
- Implement adequate internal controls to ensure proper review, receipt, and recording of property and equipment purchased with Title I funds; and
- Implement adequate internal controls and develop standard written procedures to ensure that the consultation process with private school officials is consistent and includes all the issues required by the Title I regulations prior to providing services.

In its response to the draft audit report, PRDE did not concur with our findings and recommendations and requested that the findings be reconsidered, revised, and that the recommendations for repayment be withdrawn before the issuance of a final audit report. PRDE submitted additional supporting documentation to account for \$202,103 of the expenditures questioned in Finding No. 1 of the draft audit report.⁴ Prior to responding to the draft, PRDE acknowledged that the additional documentation in support of the \$202,103 was not available for our review during the audit.

We considered PRDE's response and, based on our review of the additional documentation, revised⁵ Finding No. 1 and Recommendations 1.1 and 1.2. However, the reduction to the unsupported payments did not substantially change our finding or recommendations. PRDE lacked adequate internal controls and the necessary staff to properly monitor the contractors and did not properly review the contractors' supporting documentation before paying them \$17,998,543. As a result, PRDE made payments without ensuring that services were rendered and funds were used in compliance with Title I requirements and contract deliverables. PRDE did not provide any additional information that would warrant a change to Finding No. 2; Finding No. 3; Finding No. 4, or any of their related recommendations.

PRDE's comments and our responses to the comments are summarized at the end of each finding. The full text of PRDE's response is included as Enclosure 2. Copies of the attachments that were included with the response are available upon request.

⁴ The expenditures originally questioned as unallowable and inadequately documented in Finding No. 1 of the draft audit report totaled \$584,884.

⁵ The additional documentation provided by PRDE supported \$202,103 of the \$584,884 questioned in Finding No. 1 of the draft audit report. As a result, we reduced the amounts in our finding and the related recommendations, accordingly. In reviewing the documentation, we also identified \$16,800 in excessive charges that we had originally questioned as inadequately supported.

BACKGROUND

Section 1120 of Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA), as amended by the No Child Left Behind Act of 2001, requires a participating Local Educational Agency (LEA) to provide eligible children attending private elementary and secondary schools, their teachers, and their parents with Title I services or other benefits that are equitable to those provided to eligible public school children, their teachers, and their parents. The Title I services provided by the LEA for private school participants are designed to meet their educational needs and supplement the educational services provided by the private school. The Title I regulations allow the LEAs to contract with third parties to provide the services.

During the 2006-2007 award year,⁶ PRDE awarded \$27,448,528 in professional services contracts to NETS, Braxton, and COSEY to provide Title I services to eligible private school children, their teachers, and their parents throughout the ten school regions that comprised the public school system of Puerto Rico – \$5,932,079 to NETS, \$13,693,725 to Braxton, and \$7,822,724 to COSEY. NETS was contracted to provide services to students in 51 private schools from three school regions, Braxton to students in 133 private schools from three other school regions, and COSEY to students in 77 private schools from the remaining four school regions.⁷

According to the terms of the contracts, each contractor was required to provide a Title I program to private school children in the three core subjects – English, Spanish, and mathematics, based on the educational needs of the students selected to participate in the program. The services contracted included, but were not limited to (1) determining and coordinating the educational needs of the students by staff certified to provide instruction; (2) providing instruction in reading and language skills in the three core subjects; (3) providing computer-assisted instruction; and (4) providing equitable participation to parents and teachers of private school participants in parental involvement and professional development activities.

⁶ The contract period covered from November 1, 2006, through June 30, 2007.

⁷ According to the Department's Office of the General Counsel, the three contracts were fixed-fee contracts for services.

AUDIT RESULTS

PRDE did not adequately administer Title I services provided to private school students, their teachers, and their parents through contracts awarded to NETS, Braxton, and COSEY during the 2006-2007 award year in compliance with Title I requirements. Specifically, PRDE 1) did not properly monitor the contractors for compliance before paying them \$17,998,543 and, as a result, paid at least \$365,089 in costs that were not supported with adequate and reliable documentation, \$16,800 in excessive charges, and \$892 in unallowable costs; 2) allocated \$430,897 in Title I funds for services to parents of participating private school students in excess of the entitlement for parental involvement activities; 3) did not account for \$8,036 in Title I property and equipment purchased by the contractors during the 2006-2007 award year; and 4) did not consistently consult with private school officials prior to providing services.

FINDING NO. 1 – Inadequate Monitoring of Title I Contracts

PRDE lacked adequate internal controls and the necessary staff to properly monitor the three contractors that provided Title I services to private school students during the 2006-2007 award year. In addition, PRDE did not properly review the contractors' supporting documentation prior to making payments totaling \$17,998,543 – \$4,402,543 to NETS, \$8,807,198 to Braxton, and \$4,788,802 to COSEY. As a result, PRDE paid COSEY \$365,089 in costs that were not supported with adequate and reliable documentation, \$16,800 in excessive charges, and \$892 in unallowable costs.

According to 34 C.F.R. § 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.⁸

Pursuant to 34 CFR § 80.40, grantees must monitor grant and subgrant activities to ensure compliance with applicable Federal requirements.

According to OMB Circular A-87, Attachment A, Paragraph C.1, to be allowable under Federal awards, costs must be, among other things, necessary and reasonable for proper and efficient performance and administration of Federal awards, and adequately documented.⁹

Under the terms of the contracts, the contractors were required to submit monthly invoices accompanied with monthly and bi-monthly status reports describing the tasks and activities they performed during the contract period. PRDE did not provide evidence showing that it reviewed the reports to ensure that the services were actually provided. In addition, PRDE's monitoring activities did not include routine site visits to the participating private schools and activities offered by the contractors. PRDE's Monitoring Unit provided evidence of only two monitoring visits made during the contract period – one parental involvement activity held by NETS and one by Braxton. Also, PRDE provided evidence of only three meetings held with the contractors

⁸ CFR citations in this report are from the July 1, 2005 edition.

⁹ OMB Circular A-87 citations in this report are from the revised version of May 10, 2004, effective June 9, 2004.

during the contract period.¹⁰ In general, the issues discussed during the three meetings held served as orientation and technical assistance to the contractors mainly for the Title I services to be provided during the 2007-2008 award year.

The contract terms did not require the contractors to submit to PRDE specific source documentation supporting the costs claimed, such as cancelled checks, paid bills, detailed payrolls, and time and attendance records. However, they were required to maintain documentation that showed how the contract funds were used. The contractors were also required to bill PRDE under four expense categories – 1) Administrative, 2) Parental Involvement, 3) Professional Development, and 4) Instructional Services. PRDE agreed to pay the contractors for the allowable costs incurred, up to a maximum amount established per expense category.

Since PRDE did not require the contractors to submit specific source documentation with their invoices, in general, the supporting documentation we found consisted of an itemization of the costs incurred under each of the four expense categories identified in the contracts. They also included tables identifying the expense code and description, the check number of the payments made to third parties, the third parties' names, and the amount of the checks. For salaries and fringe benefits, the contractors submitted payroll summaries in table format identifying the expense category, an employee identification number and/or employee name, the payroll period, date of payment, payment type (regular, sick, vacation), amount of hours worked, gross salary deductions, employers' contributions, and the net amount paid. However, the documentation did not specify the employees' positions, or the schools or offices where the employees worked. The only exception was COSEY, which, in addition to the breakdown of expenses, payroll summaries, and tables, submitted source documentation for \$1,472,625 in costs billed under the Administrative expense category.

We reviewed all 24 invoices submitted by the three contractors to PRDE for services rendered during the period of November 2006 through June 2007, totaling \$17,998,543¹¹ – NETS submitted eight invoices totaling \$4,402,543, Braxton eight totaling \$8,807,198, and COSEY eight totaling \$4,788,802. We found that PRDE's review of the costs claimed was restricted to verifying that the contractors correctly charged the expenses according to the four expense categories identified in their contracts. In addition, PRDE did not monitor the contractors sufficiently to ensure that services were rendered and funds were used in compliance with Title I requirements and contract deliverables before paying the \$17,998,543 invoiced by the three contractors.

We also reviewed the source documentation submitted by COSEY for the \$1,472,625 in costs billed under the Administrative expense category and found that PRDE paid \$365,089 in costs that were not supported with adequate and reliable documentation, \$16,800 in excessive charges, and \$892 in unallowable costs.

¹⁰ The evidence consisted of minutes of the issues discussed during the meetings.

¹¹ Of the \$27,448,528 PRDE awarded to the three contractors, they invoiced \$17,998,543. According to PRDE officials, Title I funds that are not used by the contractors are carried over to the next award year.

Table 1.1 summarizes the amounts invoiced by the three contractors and the questioned costs found.

Table 1.1 Summary of Questioned Costs

Contractor	Amount Contracted	Amount Invoiced/Paid	Questioned Costs			
			Costs Not Adequately Supported	Excessive Charges	Unallowable Costs	Total Questioned Costs Based on Documentation Reviewed
NETS	\$5,932,079	\$4,402,543	Undetermined	Undetermined	Undetermined	\$0
Braxton	\$13,693,725	\$8,807,198	Undetermined	Undetermined	Undetermined	\$0
COSEY	\$7,822,724	\$4,788,802	\$365,089	\$16,800	\$892	\$382,781
Total	\$27,448,528	\$17,998,543	\$365,089	\$16,800	\$892	\$382,781

NETS submitted to PRDE eight invoices totaling \$4,402,543. PRDE did not monitor NETS sufficiently and did not properly review the contractor's supporting documentation to ensure that services were rendered and funds were used in compliance with Title I requirements and contract deliverables before making the payments.

Braxton submitted to PRDE eight invoices totaling \$8,807,198. PRDE did not monitor the contractor sufficiently and did not properly review the contractor's supporting documentation to ensure that services were rendered and funds were used in compliance with Title I requirements and contract deliverables before making the payments. From the invoices we reviewed, we found that, of the \$8,807,198 invoiced, Braxton billed PRDE \$40,074 for the purchase of trailers without providing PRDE recommendations, specifications, and price quotes prior to purchase.¹² According to the contract terms, PRDE authorized the contractors to purchase, lease, and refurbish real and personal property (including, but not limited to, mobile educational units and leasing of neutral sites or spaces), insurance and maintenance costs, transportation, and other comparable goods and services. However, the contractors were required to present to PRDE their recommendations, specifications, and prices of the property prior to purchase. Although PRDE officials stated that they orally authorized Braxton to purchase the trailers, PRDE did not require Braxton to submit the required documentation prior to purchase. Therefore, PRDE did not enforce the contract terms.

COSEY submitted to PRDE eight invoices totaling \$4,788,802. PRDE did not monitor the contractor sufficiently and did not properly review the contractor's supporting documentation to ensure that services were rendered and funds were used in compliance with Title I requirements and contract deliverables before making the payments. However, we found that COSEY submitted specific source documentation for the \$1,472,625 in costs billed under the Administrative expense category. As a result, we were able to determine the adequacy and reliability of the documentation for charges against that expense category. We reviewed the source documentation and found that COSEY did not provide adequate and reliable

¹² Of the total \$40,074 in costs billed by Braxton for the purchase of trailers, \$20,037 pertained to the January 2007 invoice, and \$20,037 to the April 2007 invoice.

documentation for \$365,089 billed under that category – \$31,597 in non-personnel costs and \$333,492 in salaries. The source documentation supporting the \$31,597 in non-personnel costs was not adequate or sufficient to determine if the invoiced costs were allowable. The \$333,492 in salaries was not supported with adequate and reliable documentation because, although COSEY submitted payroll summaries and copies of the checks issued, the documentation did not specify the employees' positions, or the schools or offices where the employees worked. Enclosure 1 shows a summary of the costs COSEY billed under the Administrative expense category that were not adequately supported.

COSEY billed a total of \$350,292 in salaries under the Administrative expense category that were not supported with adequate and reliable documentation. In its response to the draft audit report, PRDE provided additional documentation for the salaries. Our review of the additional information identified excessive charges of \$16,800 billed by COSEY for three management positions. According to COSEY'S proposal, which was incorporated in the contract, COSEY would pay \$42,000 to the Executive Director, \$31,800 to the Auxiliary Executive Director, and \$31,800 to the Administrative Director. However, COSEY billed PRDE \$48,000 for the Executive Director, \$37,200 for the Auxiliary Executive Director, and \$37,200 for the Administrative Director, resulting in excessive charges of \$6,000, \$5,400, and \$5,400, respectively. The excessive payments could have been used for providing additional Title I services to eligible students.

We also found that COSEY billed PRDE \$892 in unallowable costs under the Administrative expense category. The unallowable costs consisted of (1) a charge of \$342 for a late insurance payment,¹³ and (2) \$550 billed for recording a video of an activity provided to Title I teachers.¹⁴

In addition, we found that COSEY billed \$5,136 for the purchase of a trailer for which PRDE did not provide authorization, as required by the contract terms.¹⁵ According to PRDE officials, COSEY did not request authorization to purchase the trailers; and they did not notice that COSEY billed for the unauthorized purchase, since it was billed under the "Equipment Repairs" account instead of the "Acquisition of Trailers" account. PRDE was unaware of the trailer purchase until it was identified in our audit. According to PRDE's response to the draft audit report, it cancelled the purchase and COSEY returned the money. COSEY also billed for \$1,466 in costs that were incurred outside the contract period, consisting of (1) \$1,166 billed for rental car costs (rent paid from October 6, 2006, through November 7, 2006, although the contract was awarded on November 1, 2007); and (2) \$300 billed for a month's rent of a trailer, incurred in October 2006.¹⁶ Failure to identify unauthorized purchases under contract requirements, and costs claimed that were incurred outside the contract period placed Title I funds at risk of abuse and misuse.

¹³ The unallowable cost billed for the late insurance payment (\$342) was billed in the November 2006 invoice. The late insurance payment was considered unallowable under OMB Circular A-87, Attachment B, Number 5, which states that bad debts, including losses arising from uncollectible accounts and other claims, are unallowable.

¹⁴ The unallowable cost billed for video services (\$550) was billed in the June 2007 invoice. It was considered unallowable under OMB Circular A-87, Attachment A, Paragraph C.1, because the expense was not necessary for the proper and efficient performance and administration of Title I funds.

¹⁵ The unauthorized trailer purchase (\$5,136) was billed in the June 2007 invoice.

¹⁶ The rental car costs (\$1,166) incurred outside the contract period was billed in the November 2006 invoice. The trailer rental costs (\$300) incurred outside the contract period was billed in the June, 2007 invoice.

The lack of proper monitoring of the Title I services provided by the contractors to private school students during the 2006-2007 award year precluded PRDE from identifying: (1) costs claimed by the contractors that were not adequately documented; (2) excessive charges billed; (3) costs claimed by the contractors that were not allowable uses of Title I funds; (4) unauthorized purchases; and (5) costs claimed that were incurred outside the contract period. The lack of proper monitoring may have affected PRDE's ability to fully and effectively comply with Title I program requirements. Specifically, PRDE could not ensure that participating private school children, their teachers, and their parents received the full level of services contracted, and that Title I funds were used for their intended purposes.

Recommendations:

We recommend that the Assistant Secretary for OESE require PRDE to—

- 1.1 Review the contractors' supporting documentation to ensure compliance with Title I requirements for payments made without proper contract monitoring, including the \$365,089 identified in the finding as not supported with adequate and reliable documentation, and return to the Department all unallowable costs paid;
- 1.2 Return to the Department the \$16,800 in excessive charges and \$892 in unallowable costs paid;
- 1.3 Ensure that proper supporting documentation and reports submitted by contractors are reviewed prior to making payments to ascertain that the services reported were actually provided and funds were used in compliance with contract deliverables and Title I regulations; and
- 1.4 Develop adequate internal controls and assign the staff necessary to properly monitor the contractors.

PRDE's Comments

In its response to the draft audit report, PRDE did not concur with our findings and recommendations and requested that the findings be reconsidered, revised, and that the recommendations for repayment be withdrawn before the issuance of a final audit report. PRDE contended that the audit failed to review the voluminous documentation that supported the Title I expenditures at issue and failed to analyze harm to the Federal interest, as required, in making findings. PRDE also disagreed with Recommendation 1.1 to review the contractors' supporting documentation for the payments made without monitoring to ensure compliance with Title I requirements. It contended that we based our recommendation on a perceived lack of adequate and reliable documentation. PRDE also stated that with the additional documentation it provided in its response, it had proved that it had adequate, reliable documents for its contractors, and therefore, it would be unnecessary and unduly burdensome for PRDE to review all \$17,998,543 in payments made to NETS, Braxton and COSEY for the 2006-2007 award year.

Summarized in the following pages are PRDE's comments regarding specific costs questioned in the draft audit report.

Inadequately Documented Non-Personnel Costs Charged by COSEY in the Administrative Expense Category

PRDE submitted additional documentation in its response for \$31,597 in non-personnel costs paid to COSEY that were not adequately documented. It also included a brief explanation on how the funds were used for the specific costs questioned, and concluded that the documents submitted in its response demonstrated that PRDE adequately documented the expenses in accordance with the cost principles in OMB Circular A-87.

Inadequately Documented Salaries Charged by COSEY in the Administrative Expense Category

According to PRDE, the documentation provided in its response provided evidence of the employees' positions and the facilities in which they worked, and demonstrated that PRDE adequately documented these expenses in accordance with the cost principles in OMB Circular A-87. In addition, PRDE stated that the documents also demonstrated that PRDE's Title I program received a benefit from this expenditure, and therefore, the salary costs were allowable.

Unallowable Costs Charged by COSEY in the Administrative Expense Category

PRDE did not provide documentation or specific comments in its response related to the \$342 in unallowable late payment insurance costs charged by COSEY. Regarding the \$550 in unallowable costs billed by COSEY for recording a video, PRDE stated that the purpose of these costs was to use the videotaping as a means to foster professional development, and therefore, the Title I program received a demonstrable benefit as a result of these expenditures.

Unauthorized Trailer Purchase

PRDE stated in its response that the purchase of a trailer in the amount of \$5,136 was cancelled and the money was returned by COSEY to PRDE.

Costs Incurred Outside the Contract Period

According to PRDE's comments, the purpose of the \$1,166 billed for rental car costs incurred by COSEY outside the contract period was to pay for the rental car that COSEY primarily used to deliver equipment and materials to various colleges, correspondence, and reports to the Office of Federal Affairs (OFA) under a prior contract that was extended until October 2006. PRDE also stated that the Title I program received a demonstrable benefit as a result of these expenditures. PRDE did not provide documentation or specific comments in its response related to the \$300 billed for a month's rent of a trailer incurred in October 2006.

OIG's Response

We considered PRDE's response and, based on our review of the additional documentation, revised¹⁷ Finding No. 1 and Recommendations 1.1 and 1.2. However, the reduction to the

¹⁷ The additional documentation provided by PRDE supported \$202,103 of the \$584,884 questioned in Finding No. 1 of the draft audit report. As a result, we reduced the amount in our finding and the related recommendations, accordingly. In reviewing the documentation, we also identified \$16,800 in excessive charges that had been originally questioned as inadequately supported.

unsupported payments did not substantially change our finding or recommendations. PRDE lacked adequate internal controls and the necessary staff to properly monitor the contractors and did not properly review the contractors' supporting documentation before paying them \$17,998,543. As a result, PRDE made payments without ensuring that services were rendered and funds were used in compliance with Title I requirements and contract deliverables. Our findings are not based on a perceived lack of adequate and reliable documentation, but on the issues identified in our review regarding PRDE's lack of monitoring and review of adequate supporting documentation before paying contractors' invoices.

Prior to responding to the draft, PRDE acknowledged that the additional documentation provided in support of payments was not available for our review during the audit. The additional documentation was requested by PRDE from the contractors in order to respond to the draft report. However, after considering all the additional supporting documentation PRDE provided in its response, we revised Finding No. 1 and Recommendations 1.1 and 1.2. PRDE provided support for \$202,103 of the \$584,884 in expenditures questioned as unallowable and inadequately documented in the draft audit report. The additional supporting documentation consisted of (1) \$153,327 in non-personnel costs billed by COSEY that were questioned as inadequately documented; (2) \$8,702 in costs billed by COSEY that were questioned as unallowable, and (3) \$40,074 in costs billed by Braxton that were questioned as unallowable. Our revision of the documentation also led to the addition in Finding No. 1 of \$16,800 in excessive charges that had been originally questioned as inadequately supported.

In addition, the documentation submitted by PRDE in its response was generally in support of the questioned costs related to costs billed by COSEY under the Administrative expense category. However, our finding involves all the costs claimed by the three contractors. Below is an explanation of the costs that were questioned in the draft audit report for which PRDE provided additional documentation in its response, but remained questioned in the final audit report.

Inadequately Documented Non-Personnel Costs Charged by COSEY in the Administrative Expense Category

We reviewed the documentation submitted by PRDE in its response concurrently with the documentation already provided during the course of the audit and determined that PRDE did not provide sufficient documentation in its response to determine that the \$31,597 in non-personnel costs paid to COSEY were allowable.

Inadequately Documented Salaries Charged by COSEY in the Administrative Expense Category

PRDE provided additional documentation in its response consisting of employee contracts and attendance sheets, a list of all teachers contracted by school, and payroll records that showed the names of the employees, their identification number, and amounts paid, with each employee divided by category – Management, Administration, and Instructional, and all other employees by educational region served. However, PRDE did not submit supporting documentation or payroll records for the salary costs billed that consolidated this information, clearly showing the

amounts billed by employee, the employee positions, and the schools where each employee worked. This information is necessary to determine if COSEY correctly billed PRDE for the employee positions and related contracted salaries, and to properly monitor the level of services provided and billed by the contractor.

The payroll records submitted by PRDE in its response identified only the positions of three management staff— the Auxiliary Executive Director, the Administrative Director, and the Executive Director of the project. We used that information to determine if COSEY correctly billed PRDE for the employee positions and related contracted salaries. As stated in the finding, we determined that of the \$350,292 billed by COSEY in salaries, it billed PRDE \$16,800 in excessive charges related to the salaries of the three management positions. Without the information of these employee positions, we could not have made such a determination. Since the payroll records submitted by COSEY as supporting documentation for the invoices did not include this information, PRDE could not determine if the \$350,292 in salaries billed by COSEY were allowable.

In addition, the payroll records submitted by PRDE in its response were insufficient to determine if the remaining \$333,492 in salaries billed by COSEY were allowable. As a result, we maintain that \$333,492 billed by COSEY in salaries was not supported with adequate and reliable documentation; and we added the \$16,800 in excessive charges paid to Finding 1 and Recommendation 1.2 of the final audit report.

Unallowable Costs Charged by COSEY in the Administrative Expense Category

PRDE provided additional supporting documentation in its response to properly account for the \$40,074 paid to Braxton and \$8,702 of the \$9,594 paid to COSEY. We revised our finding and recommendations as a result of the additional support. However, the remaining \$842 of the \$9,594 remained questioned as unallowable. Specifically,

- PRDE did not provide documentation or specific comments in its response showing that the \$342 in late payment insurance costs charged by COSEY was allowable.
- PRDE did not provide additional documentation evidencing that the \$550 billed by COSEY for recording a video of an activity provided to Title I teachers was allowable. According to PRDE's response, COSEY used the \$550 for recording the Achievement Day of the San German Region, which showcased the efforts and achievements of schools in accordance with Title I objectives. However, PRDE did not provide evidence showing how the videotape was used for the professional development of the Title I teachers, or provide evidence that the expense was necessary for the proper and efficient performance and administration of Title I funds.

Without any evidence to the contrary, these expenditures are unallowable.

Unauthorized Trailer Purchase

We questioned COSEY's purchase of a trailer in the amount of \$5,136 as unallowable in the draft audit report. PRDE provided documentation in its response showing that it cancelled this purchase and that COSEY returned the money. As a result, we revised our finding and recommendation, accordingly. However, PRDE's failure to identify this unauthorized purchase

shows a weakness in PRDE's internal controls and lack of proper monitoring of the contractor that could have placed Title I funds at risk of abuse and misuse.

Costs Incurred Outside the Contract period

We questioned \$1,166 billed for rental car costs and \$300 billed for a month's rent of a trailer incurred by COSEY outside the contract period as unallowable in the draft audit report. PRDE provided documentation in its response that showed that the expenses were incurred by COSEY during the 2005-2006 contract period, which had just expired. However, PRDE should have paid the contractor for services rendered under the correct contract period to ensure that grant funds were used only for expenses that were allocable and allowable under the particular grant and contract agreement. As a result, we did not question these expenses as unallowable, but as expenses incurred outside the contract period.

**FINDING NO. 2 – Improper Allocation of Title I Funds for Parental Involvement
Activities for Parents of Participating Private School Students**

PRDE lacked adequate internal controls and did not have standard written procedures in place to ensure that it allocated Title I funds for parental involvement activities for parents of participating public and private school students in compliance with Title I requirements. As a result, PRDE improperly allocated \$430,897 in Title I funds for services to parents of participating private school students in excess of the entitlement for parental involvement activities for the 2006-2007 award year. This prevented the parents of 38,729 children¹⁸ in public schools from receiving Title I services during that award year.

Pursuant to 34 CFR § 200.64(a)(2)(i)(B), the amount of funds available to provide equitable services from the applicable reserved funds must be proportionate to the number of private school children from low-income families residing in participating public school attendance areas.

For the 2006-2007 award year, PRDE allocated \$5,271,000 in Title I funds for parental involvement activities – \$783,000 for parents of participating private school students and \$4,488,000 for parents of participating public school students. PRDE based the allocation on a cost per school of \$3,000,¹⁹ instead of an amount proportionate to the number of private school students from low-income families residing in participating public school attendance areas, as required by the regulations. According to PRDE officials, the incorrect method of allocation dated back to 2001, when a former Director of the OFA decided to assign an equal amount of Title I funds to both public and private schools for parental involvement activities by establishing a cost per school of \$3,000.

After that year, they continued to use the same cost per school to make the allocation of parental involvement activities for parents in both private and public schools. Table 2.1 shows the correct allocation PRDE should have made for services to parents of participating private school

¹⁸ The equivalent public school students who could have been served by the amount excessively allocated for private school parents, as shown in Table 2.2.

¹⁹ 261 private schools at \$3,000 per school; and 1,496 public schools at \$3,000 per school

students for parental involvement activities for the 2006-2007 award year compared to the actual allocation made.

Table 2.1 Title I Allocation for Parental Involvement Activities

A	B	C	D	E	F	G
Amount Reserved for Parental Involvement [Public & Private Schools]	Number of Students in Public & Private Schools Under Poverty Level	Number of Students in Private Schools Under Poverty Level	Proportion of Students in Private Schools Under Poverty Level (C / B)	Correct Parental Involvement Allocation for Parents of Private School Students (A x D)	Actual Parental Involvement Allocation for Parents of Private School Students (261 x \$3,000)	Excess Allocated for Parents of Private School Students (F- E)
\$5,271,000	473,773	31,660	.0668	\$352,103	\$783,000	\$430,897

The excess allocation of \$430,897 for parents of participating private school students for parental involvement activities reduced the amount of funds that public school parents were entitled to receive for such activities. As a result, the parents of 38,729 students from public schools did not benefit from the Title I program during the 2006-2007 award year, as detailed in Table 2.2.

Table 2.2

A	B	C	D	E	F	G
Number of Students [Public] Under Poverty Level	Amount Reserved for Parental Involvement [Public & Private Schools]	Correct Parental Involvement Allocation for Parents of Private School Students	Correct Parental Involvement Allocation for Parents of Public School Students (B - C)	Excess Parental Involvement Allocation for Parents of Private School Students	Correct Parental Involvement Allocation Per Public School Student Under Poverty Level (D / A)	Number of Public School Students Whose Parents Did Not Benefit from the Title I Program E / F
442,113	\$5,271,000	\$352,103	\$4,918,897	\$430,897	\$11.13	38,729

Recommendations:

We recommend that the Assistant Secretary for OESE require PRDE to—

- 2.1 Return to the Department the \$430,897 in Title I funds allocated for activities for parents of participating private school students in excess of the entitlement for parental involvement activities for the 2006-2007 award year;
- 2.2 Re-calculate the amount of Title I funds that should have been properly allocated for parents of both private and public school students for parental involvement activities for all years back to 2001; and return to the Department the amount allocated for parents of private school students in excess of the entitlement during those years; and
- 2.3 Implement adequate internal controls and develop standard written procedures to ensure that future parental involvement allocations for parents of both public and private school students are made in compliance with Title I requirements.

PRDE's Comments

In its response to the draft audit report, PRDE disagreed with our findings and recommendations, and requested that the findings be reconsidered, revised, and that the recommendations for repayment be withdrawn before the issuance of a final audit report.

OIG's Response

PRDE provided no additional information that would warrant a change to Finding No. 2 or the related recommendations.

FINDING NO. 3 – Unrecorded Title I Property and Equipment

PRDE lacked adequate internal controls to properly account for property and equipment purchased with Title I funds by the contractors. As a result,

- PRDE's Property Division²⁰ did not account for \$8,036 in Title I property and equipment purchased by NETS, Braxton, and COSEY during the 2006-2007 award year for 10 private schools;
- The contractors' inventory records did not include information regarding the Title I property and equipment that was moved or relocated, disposed, or in need of disposal; and
- Property and equipment was not properly labeled or tagged with the name of the Title I program.

²⁰ PRDE's Property Division is the unit in charge of maintaining the centralized records of all PRDE property and equipment.

Pursuant to 34 CFR § 200.67(a), a public agency must exercise continuing administrative control of all property, equipment, and supplies that the public agency acquires with Title I funds for the benefit of eligible private school children.

Section X. B. 3 of PRDE's "*Procedures for the Control and Accounting of the Property of the Puerto Rico Department of Education*" specifies that the equipment acquired with Federal funds shall be identified with the name of the program that funded its purchase. In addition, clause number 20 of the contracts awarded to NETS, Braxton, and COSEY established that educational and capital property or equipment acquired with Federal funds granted by virtue of the contracts should be labeled as "Property of Title I, Part A, Department of Education of Puerto Rico." Further, the contracts stated that the contractors "shall not move or relocate such property or equipment without previous notice and written authorization from the Office of Federal Affairs of the Department of Education."

We reviewed the inventory records of Title I property and equipment located at 10 private schools randomly selected for review, served by the three contractors during the 2006-2007 award year – three served by NETS, three by Braxton, and four by COSEY. The records were prepared by the respective contractors that provided the Title I services at each school. The property and equipment consisted mainly of trailers, computers, air conditioners, desks, chairs, blackboards, and filing cabinets. We found that PRDE's inventory records for the 10 schools were understated by \$8,036. The PRDE records did not reconcile to the contractors' inventory records because the Private Schools Unit of the OFA²¹ did not send the inventory records to PRDE's Property Division to be properly recorded. The PRDE's Private Schools Unit of OFA and its Property Division did not properly coordinate and share the information necessary to account for all the property and equipment purchased by the contractors with Title I funds. We also found that PRDE did not have documented evidence indicating that it authorized the contractors' movement or relocation of Title I property and equipment, as required by the contract terms.

We performed physical inventories at 3 of the 10 schools selected for review – one served by NETS, one by Braxton, and one by COSEY – and reconciled the property and equipment listed in the contractors' inventory records with the property and equipment at the three schools.²² We were able to account for all the property and equipment listed in the contractors' inventory records. However, we found that the Title I property and equipment located at two of the three schools visited – one served by NETS and one by COSEY – had not been properly labeled or tagged with the name of the Title I program, as required by the contract terms and PRDE's written procedures for the control and accounting of PRDE property. The property and equipment inventoried at the two schools were labeled by the contractors, not by PRDE's Property Division.

PRDE's 2004, 2005, and 2006 Single Audits continually reported that PRDE's Property Division lacked internal controls over property and equipment acquired with Federal funds. According to the single audits, PRDE's Property Division (1) did not maintain an effective property and equipment system from which a current and complete subsidiary ledger could be prepared; (2)

²¹ PRDE OFA's Private Schools Unit maintained the inventory records of the property and equipment purchased by the contractors.

²² The three schools visited were Colegio San Isidro Labrador, La Escuelita, and Christian Military Academy.

had not established adequate procedures and controls to ensure that all of the property and equipment acquired under the different Federal programs and community schools were recorded; and (3) had not established procedures to immediately update the property records when an item of property and equipment was, either transferred from one location, or disposed of.

PRDE cannot ensure adequate safeguards to prevent the loss, damage, or theft of property and equipment acquired with Title I funds because it does not (1) accurately account for all Title I property and equipment, (2) maintain record of inventory movement, and (3) ensure adequate labeling of property and equipment. In addition, without a master inventory record that accounts for all property and equipment acquired with Title I funds and processes for reconciling to the contractors' inventory records, PRDE cannot ensure that the property and equipment acquired by the contractors is necessary.

Recommendations:

We recommend that the Assistant Secretary for OESE require PRDE to—

- 3.1 Instruct its Property Division to account for the \$8,036 in Title I property and equipment purchased by NETS, Braxton, and COSEY during the 2006-2007 award year for the 10 private schools reviewed;
- 3.2 Implement adequate internal controls to ensure proper review, receipt, and recording of property and equipment purchased with Title I funds;
- 3.3 Establish efficient means of communication between the OFA offices in charge of administering Title I and other Federal programs and PRDE's Property Division, to ensure that they properly coordinate and share the information necessary to account for the property and equipment;
- 3.4 Maintain documentation of approval for the movement of inventory; and
- 3.5 Ensure that Title I property and equipment is appropriately labeled.

PRDE's Comments

In its response to the draft audit report, PRDE disagreed with our findings and recommendations, and requested that the findings be reconsidered, revised, and that the recommendations for repayment be withdrawn before the issuance of a final audit report.

OIG's Response

PRDE provided no additional information that would warrant a change to Finding No. 3 or the related recommendations.

FINDING NO. 4 – Inconsistent Consultations with Private School Officials Prior to Providing Title I Services

PRDE did not have adequate internal controls and standard written procedures in place to ensure that consultations with private school officials were consistent and addressed all the issues required by the Title I regulations prior to providing Title I services during the 2006-2007 award year. Specifically, PRDE did not require the contractors to submit written reports documenting the results of the consultation they performed, and did not maintain written affirmations signed by the private school officials documenting that the required consultations occurred.

According to 34 CFR § 200.63(a), in order to have timely and meaningful consultation, an LEA must consult with appropriate officials of private schools during the design and development of the LEA's program for eligible private school children. In addition, section 200.63(b) provides that an LEA must consult, at a minimum, on the following issues.

- 1) How the LEA will identify the needs of eligible private school children;
- 2) What services the LEA will offer to eligible private school children;
- 3) How and when the LEA will make decisions about the delivery of services;
- 4) How, where, and by whom the LEA will provide services to eligible private school children;
- 5) How the LEA will assess academically the services to eligible private school children in accordance with Sec. 200.10, and how the LEA will use the results of that assessment to improve Title I services;
- 6) The size and scope of the equitable services that the LEA will provide to eligible private school children, and, consistent with Sec. 200.64, the proportion of funds that the LEA will allocate for these services;
- 7) The method or sources of data that the LEA will use under Sec. 200.78 to determine the number of private school children from low-income families residing in participating public school attendance areas, including whether the LEA will extrapolate data if a survey is used; and
- 8) The equitable services the LEA will provide to teachers and families of participating private school children.

Pursuant to 34 CFR § 200.63(d)(1)(ii), consultation must include a thorough consideration and analysis of the views of the officials of the private schools on the provision of services through a contract with a third-party provider.

In addition, 34 CFR § 200.63(e) requires an LEA to maintain written affirmation, signed by officials of each private school with participating children or appropriate private school representatives, that the required consultation had occurred.

According to officials from eight of the private schools selected for review²³ and our review of documentation, PRDE, either directly or through the contractors, consulted with schools on the Title I services PRDE would provide.²⁴ In addition, PRDE initiated the consultation process

²³ We were unable to interview the Directors of the remaining two private schools selected for review.

²⁴ As a contract deliverable under the 2005-2006 and 2006-2007 contracts, PRDE required the contractors to consult with private schools officials.

timely. However, neither PRDE nor the contractors consistently consulted with all the private school officials interviewed on the following required issues.

- How PRDE was going to identify the needs of eligible private school children;
- How and when PRDE was going to make decisions about the delivery of services;
- How, where, and by whom PRDE was going to provide the services;
- The size and scope of the equitable services that PRDE was going to provide;
- The method, or the sources of data, that PRDE was going to use to determine the number of private school children from low-income families residing in participating public school attendance areas; and
- The services that PRDE was going to provide to teachers and families of participating private school children.

The majority²⁵ of the private school officials also stated that neither PRDE nor the contractors consulted with them on the following issues.

- How PRDE was going to use the results of the academic assessment to private school children to improve Title I services;
- Whether PRDE should have contracted with a third-party provider; and
- The options for using the funds reserved for instructional services: on a school-by-school basis or the pooling option.

The lack of consistent consultation with private schools officials reduced the level of assurance that the Title I services provided by the contractors met the needs of eligible private school children, their teachers, and their parents. In addition, without sufficient documentation to support the consultations, PRDE could not support the payments allocated for the contract requirement or refute contractors' disagreements or requests for additional funding.

Recommendations:

We recommend that the Assistant Secretary for OESE require PRDE to—

- 4.1 Implement adequate internal controls and develop standard written procedures to ensure that the consultation process with private school officials is consistent and includes all the issues required by the Title I regulations prior to providing services;
- 4.2 Require contractors of Title I services to provide a written report to PRDE on the results of the consultation performed, and ensure that written evaluations of the reports are performed and maintained to support PRDE's monitoring of the contractors' deliverables; and
- 4.3 Obtain and maintain written affirmations from private school officials documenting that the required consultation occurred.

²⁵ We considered a majority to be five or more of the eight private school officials interviewed.

PRDE's Comments

In its response to the draft audit report, PRDE disagreed with our findings and recommendations, and requested that the findings be reconsidered, revised, and that the recommendations for repayment be withdrawn before the issuance of a final audit report.

OIG's Response

PRDE provided no additional information that would warrant a change to Finding No. 4 or the related recommendations.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of the audit was to determine if PRDE administered Title I services provided to private school students, their teachers, and their parents through contracts awarded to NETS, Braxton, and COSEY, in compliance with Title I requirements. Specifically, our objectives were to determine if PRDE 1) ensured that the costs claimed by the contractors were allowable and followed contract requirements; 2) properly allocated Title I funds to private schools; 3) properly accounted for Title I funds used to purchase property and equipment; 4) consulted with private school officials to determine the needs of the children and the services to be provided; and 5) monitored the contractors for compliance. Our audit period was November 1, 2006, through June 31, 2007.

To accomplish the audit objectives, we reviewed PRDE's allocation of Title I funds to private schools, reviewed the contracts awarded to NETS, Braxton, and COSEY during the 2005-2006 and 2006-2007 award years, and interviewed officials from PRDE.

We selected a random sample of 10 private schools from the universe of 261 private schools that received Title I services during the 2006-2007 award year under the three contracts. We interviewed the Directors from 8 of the 10 selected private schools and reviewed documentation for determining if the required consultation occurred – three included site visits and five were through telephone interviews. We also reviewed inventory records and performed physical inventories of the Title I property and equipment at the three private schools visited (Colegio San Isidro Labrador, La Escuelita, and Christian Military Academy). We performed our fieldwork at PRDE's OFA and the three schools visited.

Table 3.1 identifies the random sample of private schools selected for review and the scope of the work performed.

Table 3.1 Random Sample of Private Schools Selected for Review

Random Sample	Consultation		Title I Property and Equipment		
	Performed Personal Interviews	Performed Telephone Interviews	Reviewed Inventory Records	Took Physical Inventory	Reconciled Inventory With Contractors'
1	√		√	√	√
2	√		√	√	√
3	√		√	√	√
4		√	√		
5		√	√		
6		√	√		
7		√	√		
8		√	√		
9			√		
10			√		
Total	3	5	10	3	3

We reviewed a total of 24 invoices (8 submitted by each contractor) for the period of November 2006 through June 2007, and the supporting documentation of the expenses billed under each invoice maintained by PRDE. We also reviewed PRDE's procedures and activities performed to monitor the contractors for compliance, including a review of the first two monthly status reports submitted by each contractor (November and December 2006).

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

ENCLOSURE 1

Summary of Costs Billed by COSEY Under Administrative Expenses Not Adequately Supported				
Notes	Invoice	Cost Category	Non-Personnel Costs	Salaries
	Nov-06			\$24,536
	Dec-06			42,631
1	Jan-07	Rent – Office	1,050	43,700
2	Feb-07	Travel - Inside PR	2,400	46,904
	Mar-07			39,212
	Apr-07			24,167
	May-07			38,863
3	Jun-07	Travel - Inside PR	2,303	90,279
4		Rent – Office	25,000	
5		Rent – Other Equipment	494	
6		Rent – Trailers	350	
Total		\$381,889	\$31,597	\$350,292

Notes:

1. In the January 2007 invoice, COSEY billed PRDE a total of \$2,100 for office rent. COSEY provided PRDE source documentation for one month of rent (January 2007), totaling \$1,050. However, COSEY did not provide source documentation for the remaining \$1,050. In its response, PRDE provided the same payment order, invoice, and cancelled check supporting only the \$1,050. As a result, we were unable to determine if the expenses billed for office rent were allowable.
2. In the February 2007 invoice, COSEY billed PRDE \$2,400 for travel expenses inside PR. However, COSEY did not provide documentation to support the charges. In its response, PRDE provided a list of three administrative staff to which COSEY paid \$800 each for the period of November 2006 through January 2007, totaling \$2,400. PRDE also provided reports of local travel for three COSEY employees that were not the same three employees that were paid the \$2,400. PRDE did not provide local travel reports for the three employees, or any type of travel documentation showing the actual expenses incurred, or the basis for the amounts allocated to each employee, either on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or any other basis. As a result, we were unable to determine if the expenses billed for travel inside PR were allowable.
3. In the June 2007 invoice, COSEY billed PRDE \$2,303 for travel expenses inside PR that were not adequately supported. The supporting documentation included a statement certifying local travel expenses incurred by three staff members during the period of February through June 2007. It also included a copy of the three cancelled checks paid. However, COSEY did not provide a justification for the travel or source documentation, such as receipts or other travel records. In its response, PRDE stated that the purpose of the trips

was to pay for staff to visit schools and attend program activities at different educational regions. PRDE provided in its response a list of three administrative staff to which COSEY paid \$2,303 (\$767 to two and \$769 to one) for the period of February through June 2007. PRDE also provided in its response reports of local travel for a COSEY employee that was not one of the three employees that were paid the \$2,303. However, PRDE did not provide local travel reports for the three employees paid, or any type of travel documentation showing the actual expenses incurred, or the basis for the amounts allocated to each employee, either on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or any other basis. As a result, we were unable to determine if the expenses billed for travel inside PR were allowable.

4. In the June 2007 invoice, COSEY billed PRDE \$25,000 for office rent costs that were not adequately supported. The supporting documentation included purchase and payment orders for the rent of facilities of participating private schools during the month of June 2007 to provide Title I services during a summer program. It also included copies of ten checks (not cancelled) of \$2,500 each, issued to the private schools. PRDE did not provide additional supporting documentation in its response evidencing that the charges were adequately documented and allowable. It provided documentation that showed that the payments were made to 10 private schools to which COSEY provided Title I services for the use of their own buildings. In its response, PRDE stated that these costs were to pay the rent of the buildings used by the various private schools for their summer camp programs. In addition, PRDE provided documentation in Enclosure #24 of its response indicating that it had one or more trailers at each of the 10 schools that were used to provide the Title I services to participating private school children. Further analysis should be made by PRDE to determine if the expenses billed for office rent complied with the requirements in 34 CFR § 200.66 to ensure that the funds were not used for the needs of the private schools or the general needs of the children in the private schools attending their summer programs, and were necessary for the proper and efficient performance and administration of Title I funds. According to 34 CFR § 200.66, Title I funds must be used to provide services to supplement, and in no case supplant, the services that would, in the absence of Title I services, be available to participating private school children. It further states that Title I funds must not be used for the needs of the private school or the general needs of children in the private school.
5. In the June 2007 invoice, COSEY billed PRDE \$494 for the rent of equipment. However, COSEY did not provide supporting documentation. In our draft audit report, we reported the \$494 with no supporting documentation as charged to the conservation and repair of equipment account, but the expenses were actually charged to the rent of other equipment account. PRDE did not provide additional supporting documentation in its response for the \$494 billed by COSEY for the rent of other equipment. As a result, we were unable to determine if the expenses billed were allowable.
6. In the June 2007 invoice, COSEY billed PRDE \$350 for the rent of a trailer that was not adequately supported. COSEY billed PRDE a total of \$3,600 for the rent of trailers. The supporting documentation submitted by PRDE included 5 invoices from third party vendors – one for \$350 for the month of June 2007; two for \$250 for the months of May and June 2007; another for \$2,400 for the period of October 2006 through May 2007; and another for \$350 that did not specify the period rented. This expense was not adequately documented because we could not determine if it was incurred inside the contract period. PRDE provided supporting documentation in its response for the \$350 billed for the month of June 2007

which was considered adequately documented, but not for the \$350 that did not specify the period rented. With the documentation provided, we were unable to determine if the expense billed was allowable.

ENCLOSURE 2

Puerto Rico Department of Education
Response to Draft Audit Report: ED-OIG/A04H0017

Submitted to:
Ms. Denise M. Wempe
U.S. Department of Education
Office of Inspector General
61 Forsyth SW
Room 18T71
Atlanta, GA 30303

This is the response of the Puerto Rico Department of Education (“PRDE”) to the U.S. Department of Education’s Office of Inspector General (“OIG”) Draft Audit Report ED-OIG/A04H0017 (“Draft Audit Report”), issued June 2, 2008, entitled *Puerto Rico Department of Education’s Administration of Title I Services Provided to Private Schools*. OIG reviewed Title I equitable services PRDE provided to private school students, their teachers, and their parents for the 2006-2007 award year. OIG erroneously concluded that PRDE did not properly administer Title I-A funds expended over that time period. OIG specifically questioned a number of PRDE’s Title I expenditures on equitable services provided to private school students, their teachers, and their parents through contracts awarded to National Educational and Technological Services, Inc. (“NETS”), Braxton School of Puerto Rico, Inc. (“Braxton”), and Corporación de Servicios Educativos de Yabucoa (“COSEY”). In addition, OIG recommended that the Assistant Secretary for Elementary and Secondary Education (OESE) require PRDE to review the contractors’ supporting documentation for the \$17,413,659 paid to ensure compliance with Title I requirements.

PRDE respectfully submits that the audit methodology used was seriously flawed. It appears that the audit failed to review the voluminous documentation that supports the Title I expenditures at issue. In addition, the audit failed to analyze harm to the Federal interest, as required, in making findings. PRDE’s response below, based on each Draft Audit Report finding, demonstrates the underlying flaws in the rationales supporting the findings, and explains the extensive supporting documentation for the expenditures questioned by OIG.

Braxton Expenditure for Trailers

Braxton is a contractor, hired by PRDE, to provide equitable services to private school students. OIG found that PRDE charged its Title I program \$40,074 in unallowable costs for the purchase of trailers by Braxton.²⁶ OIG stated that PRDE did not authorize the contractors to purchase, lease, and refurbish real and personal property (including mobile educational units and leasing of neutral sites or spaces). As a result, it found the cost unallowable.

²⁶ See Draft Audit Report, Finding No. 1.

In response, PRDE submits:

- A letter from Saint Patrick’s Bilingual School requesting the trailers and justifying the use for its Title I-eligible students;
- Three price quotes;
- A letter explaining why Braxton selected Fox Trailer Company as its vendor to purchase the trailers;
- Purchase order;
- Receipts of the trailer delivery;
- Check request form;
- Two checks (each for \$20,036); and
- Contract with Braxton.²⁷

OMB Circular A-87, *Attachment A, Paragraph C.1* provides that costs must be necessary and reasonable for proper and efficient performance and administration of federal awards, be allocable to federal awards, and be adequately documented. In order to recover funds, there must be an analysis reflecting the value of the program services actually obtained in a determination of harm to the Federal interest. 20 U.S.C. 1234a(a)(2). The U.S. Department of Education (“USDE”) may require recipients to return only an amount that is proportional to the extent of the harm its violation caused to an identifiable Federal interest associated with the program. 34 C.F.R. § 81.32(a)(1).

As OIG acknowledges, “according to the contract term, PRDE authorized the contractors to purchase, lease, and refurbish real and personal property (including, but not limited to, mobile educational units and leasing of neutral sites or spaces), insurance and maintenance costs, transportation, and other comparable goods and services.”²⁸ OIG also acknowledges that PRDE officials gave verbal authorization to Braxton officials to purchase the trailer. PRDE’s authorization is noted in the documents submitted.²⁹ OIG stated that Braxton was required to present PRDE with its recommendations, specifications, and prices of the property prior to purchase.

PRDE acknowledges that it could have created a stronger paper trail documenting this transaction. However, as the documentation submitted demonstrates, in soliciting three price quotes, Braxton and PRDE diligently ensured that the trailers were bought for a competitive price, maximizing the benefit to the Title I program. Furthermore, the documents provided demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

Non-Personnel Costs Incurred by COSEY

COSEY is a contractor, hired by PRDE, to provide equitable services to private school students. OIG found that PRDE charged non-personnel costs to its Title I program that lacked adequate and reliable documentation in the amount of \$184,924 for fiscal year 2006-2007. OIG stated that PRDE’s source documentation was not adequate or sufficient to determine if the invoiced costs were allowable. OIG cited OMB Circular A-87, *Attachment A, Paragraph C.1*, which requires

²⁷ See EX 1.

²⁸ Draft Audit Report, p. 6; See also EX 1, specifically p. 6 of the contract between PRDE and Braxton.

²⁹ See EX 1, specifically the cover page detailing the submitted documents.

costs charged to Federal grants to be necessary and reasonable for proper and efficient performance and administration of Federal grant and adequately documented. OIG questioned a number of specific transactions invoiced to PRDE by COSEY involving non-personnel charges to Title I for equitable services.³⁰ PRDE's response to OIG on each expenditure follows.

1) Property Insurance Expenditure

In November 2006, COSEY billed PRDE \$13,699 for insurance costs it incurred. As OIG acknowledges, PRDE submitted supporting documentation that included two payment stubs, two payment orders, and two cancelled checks. OIG stated that the documentation provided did not specify the type of insurance paid.

PRDE submits policy documents with Liberty Finance, evidence that the insurance paid for covered both commercial property liability and commercial general liability.³¹ Specifically, the insurance policy covered a number of premises (described in the policy) where private school students receive equitable services. Therefore, these documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

2) Travel Expenses

In December 2006, COSEY billed PRDE \$224 for travel expenses it incurred. As OIG acknowledges, PRDE submitted supporting documentation, including a purchase order, hotel bill, and credit card bill.³² OIG stated that the documentation provided did not detail the purpose of the travel expenses. The purpose of the travel was to attend the Florida Educational Technology Conference (FETC) in Orlando, Florida. The conference program presents educators and administrators with an opportunity to learn how to integrate different technologies across the curriculum. PRDE submits promotional materials and an agenda explaining the academic purpose for the conference.³³ As the documents prove, the Title I program received a demonstrable benefit as a result of these expenditures, and the expenditures are adequately documented in accordance with the cost principles in OMB Circular A-87.

3) Equipment Rental Expenditure

In December 2006, COSEY billed PRDE \$1,463 for rental equipment costs it incurred. As OIG acknowledges, PRDE submitted supporting documentation that included a payment stub (\$508) and two invoices (\$538 and \$417). OIG stated that the documentation provided did not specify the type of equipment that was rented.

PRDE submits documents indicating that the equipment rented was three photocopiers.³⁴ In addition, PRDE submitted two cancelled checks, one in the amount of \$508 and one in the amount of \$955 (for the \$538 and \$417 expenditure). The photocopiers were used at three locations where students received equitable services. These documents demonstrate that PRDE

³⁰ See Draft Audit Report, p. 18-21 (Finding No. 1).

³¹ See EX 2.

³² See EX 3.

³³ See EX 4.

³⁴ See EX 5.

adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

4) Property Insurance Expenditure

In December 2006, COSEY billed PRDE \$6,850 for insurance costs it incurred. As OIG acknowledges, PRDE submitted supporting documentation that included a payment stub. OIG stated that the documentation provided did not specify the type of insurance paid. PRDE submits documents that demonstrate that the insurance paid to Liberty Finance covered both commercial property liability and commercial general liability.³⁵ In addition to the payment stub, PRDE has also submitted a cancelled check. As noted above, this insurance policy was purchased in November 2006 for a number of premises where private school students receive equitable services. These documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

5) Automotive Equipment Repair Expenditure

In December 2006, COSEY billed PRDE \$240 for automotive repairs it incurred. As OIG acknowledges, PRDE submitted supporting documentation of this transaction. OIG stated that the documentation provided did not adequately support the expenditure.

The documents submitted by PRDE including the following: an order form, a requisition form that describes the services provided a certification of inspection, and a cancelled check.³⁶ PRDE owns two trucks that primarily move equipment, materials, and service trailers. The trailers are used to provide equitable services to private school students. The purpose of these costs was to renew the registration of these two vehicles. These documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

6) Electricity Costs

In January 2007, COSEY billed PRDE \$29,066 for electricity costs it incurred. As OIG acknowledges, PRDE submitted supporting documentation of this transaction, including bills for electricity costs, individualized to each private schools, checks, and payment orders.³⁷ OIG stated that the documentation provided did not provide a justification for the amount billed by each school.

The documents submitted by PRDE include invoices for various schools where private school students receive equitable services. COSEY does not pay an electric bill throughout the year, but rather allocates funds for this particular expense. These documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

7) Rent Expenditures

³⁵ See EX 2, 6.

³⁶ See EX 7.

³⁷ See EX 8.

In January 2007, COSEY billed PRDE \$1,050 for office rent it incurred. OIG stated that PRDE provided no source documentation for this expenditure. The documents submitted by PRDE include a purchase order, an invoice, and a cancelled check.³⁸ The rent payment was used to rent “Alquiler de Centro de Servicios Educativos Ponce” in order to provide equitable services to private school students. These documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

8) Property Insurance Expenditure

In January 2007, COSEY billed PRDE \$6,850 for insurance costs it incurred. As OIG acknowledges, PRDE submitted supporting documentation that included a payment stub. OIG stated that the documentation provided did not specify the type of insurance paid.

The documents submitted by PRDE evidence that the insurance paid to Liberty Finance for both commercial property liability and commercial general liability.³⁹ In addition to the payment stub, PRDE has also submitted a cancelled check. As noted above, this insurance policy was purchased in November 2006 for a number of premises where private school students receive equitable services. These documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

9) Travel Expenses

In January 2007, COSEY billed PRDE \$1,050 for travel expenses it incurred. As OIG acknowledges, PRDE submitted supporting documentation that included three purchase orders, three payment orders, and three cancelled checks.⁴⁰ OIG stated that the documentation provided did not provide justification or specified criteria for the amounts billed per staff member, and that OIG could not determine if the staff worked on the project.

The purpose of the travel was to attend the FETC in Orlando, Florida and the Title I “Avenues of Excellence” conference in Long Beach, California in January 2007.⁴¹ PRDE has provided the aforementioned documentation, as well as promotional materials, an agenda, and those whom attended. These documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

10) Postage Expenditures

In February 2007, COSEY billed PRDE \$12 for postage costs it incurred. OIG stated that PRDE provided no source documentation for this expenditure. The documents submitted by PRDE include a purchase order, an invoice, and a cancelled check.⁴² These documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

11) Travel Expenses

³⁸ See EX 9.

³⁹ See EX 2, 10.

⁴⁰ See EX 11.

⁴¹ See EX 4.

⁴² See EX 12.

In February 2007, COSEY billed PRDE \$2,400 for travel expenses it incurred. OIG stated that PRDE provided no source documentation for this expenditure. The documents submitted by PRDE include a list of employees travelling, including the cost per employee, three cancelled checks, and an agenda from the trip.⁴³ The purpose of this trip was to pay for staff to visit schools and attend program activities at different educational regions. These funds are allocated for such travel expense within Puerto Rico twice a year. These documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

12) Travel Expenses

In February 2007, COSEY billed PRDE \$1,392 for travel expenses it incurred. OIG stated that PRDE provided no source documentation for this expenditure. The documents submitted by PRDE include a list of employees travelling to the FETC in Orlando, Florida, including the cost per employee, purchase orders, and three cancelled checks.⁴⁴ In addition, PRDE submitted promotional materials and an agenda explaining the academic purpose for the conference.⁴⁵ These documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

13) Property Insurance Expenditure

In February 2007, COSEY billed PRDE \$6,850 for insurance costs it incurred. As OIG acknowledges, PRDE submitted supporting documentation that included a payment stub. OIG stated that the documentation provided did not specify the type of insurance paid.

The documents submitted by PRDE evidence that the insurance paid to Liberty Finance covered both commercial property liability and commercial general liability.⁴⁶ In addition to the payment stub, PRDE has also submitted a cancelled check. As noted above, this insurance policy was purchased in November 2006 for a number of premises where private school students receive equitable services. These documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

14) Electricity Costs

In January 2007, COSEY billed PRDE \$267 for electricity costs it incurred. OIG stated that the documentation provided did not provide a justification for the amount billed by each school. PRDE submitted supporting documentation of this transaction, including a list of schools served, a purchase order, and cancelled checks.⁴⁷

The documents submitted by PRDE include invoices for various schools where private school students receive equitable services. COSEY allocated part of its electric bill to the services provided to Title I students throughout the year and submitted it to PRDE. These documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

⁴³ See EX 13.

⁴⁴ See EX 14.

⁴⁵ See EX 4.

⁴⁶ See EX 2, 15.

⁴⁷ See EX 16.

15) Property Insurance Expenditure

In March 2007, COSEY billed PRDE \$6,850 for insurance costs it incurred. As OIG acknowledges, PRDE submitted supporting documentation that included a payment stub. OIG stated that the documentation provided did not specify the type of insurance paid.

The documents submitted by PRDE evidence that the insurance paid to Liberty Finance covered both commercial property liability and commercial general liability.⁴⁸ In addition to the payment stub, PRDE has also submitted a cancelled check. As noted above, this insurance policy was purchased in November 2006 for a number of premises where private school students receive equitable services. These documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

16) Equipment Rental Expenditure

In December 2006, COSEY billed PRDE \$1,496 for rental equipment costs it incurred. As OIG acknowledges, PRDE submitted supporting documentation that included two payment stubs (one for \$988 and one for \$508), two payment orders and two cancelled checks. OIG stated that the documentation provided did not specify the type of equipment that was rented.

The documents submitted by PRDE evidence that the equipment rented was two photocopiers.⁴⁹ In addition, PRDE submitted the two payment orders and the two cancelled checks, one in the amount of \$988 and one in the amount of \$508. The photocopiers were used at “Centros Servicios Educativos Ponce/Humacao” in connection with providing equitable services to students. These documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

17) Rental Expenditure

In April 2007, COSEY billed PRDE \$1,050 for costs it incurred by renting an office. As OIG acknowledges, PRDE submitted supporting documentation that included a payment order prepared by COSEY and a copy of check that was not cancelled. OIG stated that the documentation provided did not indicate if the expenses were allowable.

PRDE has submitted documents that include an invoice, a payment authorization, and a copy of a check (\$1,050).⁵⁰ The purpose of these costs was to rent an office in the region of Ponce. These documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

18) Equipment Rental Expenditure

In April 2007, COSEY billed PRDE \$508 for costs it incurred by renting office equipment. As OIG acknowledges, PRDE submitted supporting documentation that included a copy of a payment stub for \$508. OIG stated that the documentation provided did not specify the office equipment rented and if the expenses were allowable.

⁴⁸ See EX 2, 17.

⁴⁹ See EX 18.

⁵⁰ See EX 19.

The documents submitted by PRDE include an invoice, a payment authorization, and a copy of a check (\$507.92).⁵¹ The purpose of this cost was to rent a photocopier for an office in connection with providing equitable service to students. These documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

19) Electricity Costs Expenditures

In April 2007, COSEY billed PRDE \$10,933 for electricity costs it incurred. OIG stated that the documentation provided did not provide a justification for the amount billed by each school. PRDE has documents that include a request for services, an invoice for the region of Humacao (\$1,866.62), an invoice for the Ponce region (\$5,599.86), an invoice for the Fajardo region (\$2,133.28), an invoice for the San German region (\$1,333.30), and several copies of checks.⁵² The purpose of these costs was for electricity used by these 4 regions for various schools where private school students receive equitable services.

COSEY allocated part of its electric bill to the services provided to Title I students throughout the year and submitted documentation to PRDE. These documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

20) Office Equipment Repair Expenditures

In April 2007, COSEY billed PRDE \$119 for costs it incurred repairing office equipment. As OIG acknowledges, PRDE submitted supporting documentation that included a purchase order and a copy of check that was not cancelled. OIG stated that the documentation provided did not indicate if the expenses were allowable.

PRDE has documents that include an invoice, a request for services, a payment authorization, and a copy of a check (\$118.56).⁵³ The purpose of these costs was to repair a building. Therefore, these documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

21) Property Insurance Expenditure

In April 2007, COSEY billed PRDE \$6,850 for insurance costs it incurred. As OIG acknowledges, PRDE submitted supporting documentation that included a payment stub. OIG stated that the documentation provided did not specify the type of insurance paid.

The documents submitted by PRDE evidence that the insurance paid to Liberty Finance covered both commercial property liability and commercial general liability.⁵⁴ In addition to the payment stub, PRDE has also submitted a cancelled check. As noted above, this insurance policy was purchased in November 2006 for a number of premises where private school students receive

⁵¹ See EX 20.

⁵² See EX 21.

⁵³ See EX 22.

⁵⁴ See EX 2, 23.

equitable services. These documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

22) Electricity Costs Expenditures

In May 2007, COSEY billed PRDE \$39,732 for electricity costs it incurred. As OIG acknowledges, PRDE submitted supporting documentation that included payment orders and copies of checks. OIG stated that the documentation provided did not provide a justification for the amount billed by each school.

The documents submitted by PRDE include requests for services, an invoice for the Humacao region (\$10,399.74), an invoice for the Ponce region (\$16,799.58), an invoice for the San German region (\$5,066.54), an invoice prepared for the Fajardo region (\$7,773.14), and several copies of checks that were not cancelled.⁵⁵ The purpose of these costs was to pay the electricity used by the regions of Humacao, Fajardo, Ponce, and San German for various schools where private school students receive equitable services. COSEY allocated part of its electric bill to the services provided to Title I students throughout the year and submitted it to PRDE. Therefore, these documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

23) Travel Expenses

In June 2007, COSEY billed PRDE \$2,303 for travel costs it incurred. As OIG acknowledges, PRDE submitted supporting documentation that included a statement certifying local travel and copies of three cancelled checks (one for \$769, one for \$769, and one for \$767). OIG stated that the COSEY did not justify the reason for local travel and did not indicate if the expenses were allowable.

PRDE has documents that include a statement certifying local travel, copies of the aforementioned three cancelled checks, and the trip agenda.⁵⁶ The purpose of this trip was to pay for staff to visit schools and attend program activities at different educational regions. These funds are allocated for such travel expense within Puerto Rico twice a year. Therefore, the Title I program received a demonstrable benefit as a result of these expenditures.

24) Office Rental Expenditures

In June 2007, COSEY billed PRDE \$25,000 for costs it incurred by renting an office. As OIG acknowledges, PRDE submitted documentation that included purchase and payment orders, copies of 10 checks. OIG stated that the documentation provided did not indicate if the expenses were allowable.

PRDE has submitted documents that include 10 invoices, copies of 10 checks (each in the amount of \$2,500), and 10 payment authorizations.⁵⁷ The purpose of these costs was to pay the rent of the buildings used by the various private schools for their summer camp programs. Therefore, these documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

⁵⁵ See EX 24.

⁵⁶ See EX 25.

⁵⁷ See EX 26.

25) Equipment Rental Expenditures

In June 2007, COSEY billed PRDE \$508 for costs it incurred by renting office equipment. As OIG acknowledges, PRDE submitted documentation that included a payment stub. OIG stated that the documentation provided did not indicate if the expenses were allowable.

PRDE has submitted documents that include an invoice, a payment authorization, and a check (\$507.92).⁵⁸ The purpose of these costs was to pay for the rental of a photocopier. These documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

26) Conservation and Repair of Equipment Expenditures

In June 2007, COSEY billed PRDE \$414 for costs it incurred by conserving and repairing office equipment. OIG stated that PRDE provided no source documentation for this expenditure.

PRDE has submitted documents that include invoices, a request for services, authorization for payments, and two checks (\$350 and \$67.31).⁵⁹ The purpose of these costs was to pay for the conservation and repairing of equipment at “Collegio Mi Cuido y Educación,” a location in which equitable services for students are provided. Therefore, these documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

27) Trailer Expenditures

In June 2007, COSEY billed PRDE \$350 for costs it incurred when renting a trailer. As OIG acknowledges, PRDE submitted documentation that included a third party invoice. OIG stated that the documentation provided did not indicate if the expenses were allowable.

PRDE has submitted documents that include an invoice prepared by COSEY, a payment authorization prepared by COSEY, and a check (\$350).⁶⁰ The purpose of these costs was to pay for the rental of a trailer at the Paoliny campus. Therefore, these documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

28) Property Insurance Expenditures

In June 2007, COSEY billed PRDE \$13,699 for insurance costs it incurred. As OIG acknowledges, PRDE submitted documentation that included two payment stubs and two cancelled checks. OIG stated that the documentation provided did not specify the type of insurance paid.

The documents submitted by PRDE evidence that the insurance paid to Liberty Finance covered both commercial property liability and commercial general liability.⁶¹ In addition to the two

⁵⁸ See EX 27.

⁵⁹ See EX 28.

⁶⁰ See EX 29.

⁶¹ See EX 2, 30.

payment stubs, each for \$6,849.52, PRDE has also submitted a cancelled check. As noted above, this insurance policy was purchased in November 2006 for a number of premises where private school students receive equitable services. These documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

29) Office Equipment Expenditures

In June 2007, COSEY billed PRDE \$3,619 for costs incurred for the purpose of purchasing office equipment. As OIG acknowledges, PRDE submitted documentation that included an invoice prepared by a third party, two purchase orders, and a check that was not cancelled. OIG stated that the documentation provided did not indicate if the expenses were allowable.

PRDE has documents that include three invoices prepared by COSEY (\$1,904.60, \$761.84, and \$952.30), 3 requests for services, three payment authorizations, a check (\$3,618.74), and a copy of bids from various contractors.⁶² The purpose of these costs was to pay for computer desks for several schools in which students are provided equitable services. Therefore, these documents demonstrate that PRDE adequately documented this expense in accordance with the cost principles in OMB Circular A-87.

Administrative Costs Incurred by COSEY

OIG found that PRDE charged administrative costs to its Title I program that lacked adequate and reliable documentation in the amount of \$9,594 for fiscal year 2006-2007. OIG stated that PRDE's lack of proper monitoring of the Title I services provided by COSEY prohibited PRDE from identifying costs that were unallowable under Title I.

1) Rental Car Expenditures

In November 2006, COSEY billed PRDE \$1,166 for a rental car. As OIG acknowledges, PRDE submitted supporting documentation that included an invoice from October 2006-November 2007. OIG stated that the documentation provided did not indicate if the expenses were allowable since COSEY billed PRDE prior to the November 1, 2007 contract.

The documents submitted by PRDE include an invoice from October 2006-November 2006.⁶³ The purpose of these costs was to pay for the rental car that COSEY primarily used to deliver equipment and materials to various colleges, correspondence, and reports to the Office of Federal Affairs (OFA). COSEY's contract with PRDE was extended until October 2006 and COSEY continued to lease this particular car. Therefore, the Title I program received a demonstrable benefit as a result of these expenditures.

2) Travel Expenditures

In April and May 2007, COSEY billed PRDE \$1,836 for travelling outside of Puerto Rico. As OIG acknowledges, PRDE submitted supporting documentation that included invoices for three employee trips to professional development seminars. OIG stated that these expenses were unallowable.

⁶² See EX 31.

⁶³ See EX 32.

PRDE has documents that include various invoices for these trips, payment authorizations, promotional materials, agendas, confirmation letters, and registration forms.⁶⁴ Specifically, COSEY paid for employees to travel to Toronto, Canada, Seattle, Washington, and Orlando, Florida for the professional development of its employees. Therefore, the Title I program received a demonstrable benefit as a result of these expenditures.

3) Videotaping Expenditures

In June 2007, COSEY billed PRDE \$550 for the making of a videotape for Title I teachers. As OIG acknowledges, PRDE submitted supporting documentation that included an invoice and a payment authorization. OIG stated that the documentation provided did not indicate if the expenses were allowable.

PRDE has documents that include an invoice, payment authorization, an agenda of the program, an attendance sheet, and an evaluation of the videotape.⁶⁵ The purpose of these costs was to use the videotaping as a means to foster professional development. Therefore, the Title I program received a demonstrable benefit as a result of these expenditures.

4) Catering Service Expenditures

In June 2007, COSEY billed PRDE \$264 for catering services at the Colegio Dr. Roque Diaz Tizol. As OIG acknowledges, PRDE submitted supporting documentation that included an invoice, a payment authorization, quotes from various vendors, and request for services. OIG stated that the documentation provided did not indicate if the expenses were allowable.

PRDE has submitted an invoice, a payment authorization, quotes from various vendors, request for services, an agenda of the workshop, an attendance sheet, an evaluation of the workshop, and an itemized list of the breakfast food ordered for this particular workshop.⁶⁶ The purpose of these costs was to provide food for a workshop on reading materials and technology. Therefore, the Title I program received a demonstrable benefit as a result of these expenditures.

5) New Trailer Expenditures

In June 2007, COSEY billed PRDE \$5,136 for the purchase of a new trailer. As OIG acknowledges, PRDE submitted supporting documentation that included an invoice, price quotation from a vendor, request for services, and a payment authorization. OIG stated that the documentation provided did not indicate if the expenses were allowable.

The purchase of this trailer was cancelled and the money was returned. The documents submitted by PRDE include a check to Hacienda (Puerto Rico's Treasury Department) from COSEY.⁶⁷ Therefore, the Title I program was not charged for this particular item.

Salary Costs Incurred by COSEY

⁶⁴ See EX 33.

⁶⁵ See EX 34.

⁶⁶ See EX 35.

⁶⁷ See EX 36.

OIG found that PRDE charged salary costs to its Title I program that lacked adequate and reliable documentation in the amount of \$350,292 for fiscal year 2006-2007. These charges specifically related to COSEY. As OIG acknowledges, PRDE submitted payroll summaries and copies of checks issued. However, OIG stated that the documentation provided did not specify employees' positions, or the schools or offices where the employees worked. PRDE has submitted detailed payroll records of Title I employees related to the provision of services to private schools students, employee contracts, employee time and attendance records, and a list of employee positions, including the schools where each employee worked.⁶⁸ The documents provide evidence of the employees' positions and the facilities in which they worked. Furthermore, these documents demonstrate that PRDE adequately documented these expenses in accordance with the cost principles in OMB Circular A-87. Because these documents also demonstrate that PRDE's Title I program received a benefit, these salary costs are allowable.

OIG Recommendation to Review Contractors' Documentation.

As noted above, OIG recommended that the Assistant Secretary for Elementary and Secondary Education (OESE) require PRDE to review the contractors' supporting documentation for the \$17,413,659 paid to ensure compliance with Title I requirements.⁶⁹ OIG bases its recommendation on its perceived lack of adequate and reliable documentation. However, as the documents submitted with this response demonstrate, PRDE has documentation for nearly all of the specifically questioned expenditures in the Draft Audit Report. Because PRDE has proven that it has adequate, reliable documents for its contractors, it would be unnecessary and unduly burdensome for PRDE to review all expenditures made to NETS, Braxton and COSEY for the 2006-2007 award year.

Conclusion

In closing, PRDE respectfully disagrees in whole with the Draft Audit Report findings and request that the findings be reconsidered, revised, and that the recommendations for repayment be withdrawn before the issuance of a final audit report. The serious flaws in audit methodology led to obvious errors in the Draft Audit Report and raise questions as to the management of the audit as a whole, such that the findings and recommendations should be reviewed and withdrawn.

⁶⁸ See EX 37(a)-(f).

⁶⁹ OIG stated that PRDE paid \$4,402,543 to NETS, \$8,767,124 to Braxton, and \$4,243,992 to COSEY.