
**Puerto Rico Department of Education
Needs Major Improvements in Its Administration of
the Governor's Safe and Drug Free School Program**

FINAL AUDIT REPORT



**Audit Control Number ED-OIG/A01-90007
September 2000**

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



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

SEP 27 2000

ACN: ED/OIG-A01-90007

Honorable Pedro Roselló
Governor of Puerto Rico
P.O. Box 9020082
San Juan, Puerto Rico 00902

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

Dear Governor Roselló and Secretary Fajardo:

Enclosed is our report entitled "Puerto Rico Department of Education Needs Major Improvements in Its Administration of the Governor's Safe and Drug Free School Program" (ED-OIG/A01-90007). The Puerto Rico Department of Education was given responsibility for overseeing this program. Accordingly, the report incorporates the comments Secretary Fajardo provided in response to the draft audit report. If you have any additional comments or information you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department official, who will consider them before taking Departmental action on the audit:

Michael P. Cohen
Assistant Secretary for Elementary and Secondary Education
U.S. Department of Education
400 Maryland Ave., SW Room 3W315
Washington, D.C. 20202

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

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

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

Sincerely,

Lorraine Lewis
Inspector General

Enclosure

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

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

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Executive Summary

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

PRDE severely delayed the flow of Federal funds to Governor's Program subrecipients because it did not ensure contracts were signed prior to the beginning of the award period. Specifically, subrecipients signed the contract 3 to 11 months after the beginning of the award period. As a result, PRDE prevented institutions from rendering services and/or hindered their ability to offer optimum services to program participants.

PRDE did not follow the Cash Management Improvement Act (CMIA), Zero Balance Accounting and also lacked efficient cash management controls resulting in excess cash held totaling \$1,862,988. As of January 25, 2000, PRDE had not disbursed balances totaling \$132,975 to 8 of the 14 institutions reviewed. In addition, PRDE lacked supporting documentation for cash draws and payments made to subrecipients, resulting in \$77,082 of unsupported expenses. Also, PRDE's lack of proper controls resulted in underpaying funds totaling \$400; drawing \$270 in excess of the contract amount; and erroneously charging accounts.

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

PRDE agreed with most of the findings reported and has taken action in response to our recommendations. PRDE disagreed that it failed to: reconcile advance payments to contractors and lacked proper controls due to inadequate reconciliation and validation by departments responsible for approving and disbursing Governor's Program funds. Despite its disagreement, PRDE will implement our recommendations regarding these issues. We have recommended PRDE obtain an independent assessment to determine if the new control procedures detailed in its response are sufficient. PRDE's detailed response is attached as Exhibit C, except for the attachments that will be provided upon request.

Finding 1

PRDE severely delayed the flow of Federal funds

PRDE severely delayed the flow of Federal funds to Governor's Program subrecipients because it did not ensure contracts were signed prior to the beginning of the award period. Specifically, subrecipients signed the contract 3 to 11 months after the beginning of the award period. These delays hindered the institutions' ability to offer optimum services to program participants and resulted in the suspension of the program at one institution.

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

PRDE published newspaper advertisements during the months of December 1997 and January 1998 to advise institutions of the availability of funds for the Governor's Program for the next award year. PRDE also provided orientation to all parties interested in applying for funds under the program. Interested parties submitted proposals to PRDE with the required documents to process the contracts. These documents included a: (1) certification stating that the institution filed income taxes for the past five years, (2) certification of tax liability issued by the Puerto Rico Treasury Department, and (3) certification from the State Department acknowledging that the corporation was registered and in "good standing."

PRDE evaluated all proposals and, between August and September 1998, sent acceptance and/or rejection letters to the applicants. Acceptance letters included the amount of funds approved for the institution for the award year. However, PRDE did not award funds to the institutions timely because contracts were not signed, generally until three to eleven months after the start of the program.

3-11 month delay in signing the contracts resulted in subrecipients' inability to provide optimum services to participants

When both parties signed the contract, PRDE requested the funds from ED. As a result, the date that PRDE requested the funds was the approximate time the contract was signed. After the contract was signed, institutions began to submit invoices for the services rendered. We reviewed the contracts of 14 institutions for award year 1998-99. These contracts reflected as the date that they were signed one or two days prior to the beginning of the contract period. However, the contracts were signed 3-11 months after September 1, 1998, the beginning of the contract period.

Of the 14 contracts tested, we conducted site visits to six institutions. Officials at one school reported signing the contract in January 1999 – five months after the beginning of the contract period; PRDE subsequently issued funds to the institution in April 1999. Officials at two of the six institutions stated they signed contracts in February 1999, six months after the beginning of the contract period. PRDE subsequently issued funds to the institutions in February and March 1999. Officials at the remaining three institutions could not recall when the contracts were signed, but PRDE drew funds from ED on February 23, 1999 for two of the institutions and on March 4, 1999 for the remaining institution.

One of the three institutions was able to begin services using its own line of credit. However, not all institutions had sufficient funds or lines of credit to operate the program. Officials at one institution reported that the Governor's Program was discontinued for the 1999-00 award year because of late receipt of funds for the 1998-99 award year. The institution did not have sufficient institutional funding to support the program until Federal funds were received.

For the eight institutions not visited, PRDE drew funds three to eleven months following the start of the contract period and issued checks to the institutions five to twelve months after the start of the contract period.

The following table illustrates PRDE's restriction of Governor's Program funds for the 14 institutions included in our testing.

Institution	Program Start date	Date PRDE drew funds from ED	# of months between program start date and first draw from ED
A	1-Sep-98	9-Dec-98	3
B	1-Sep-98	3-Feb-99	5
C	1-Sep-98	3-Feb-99	5
D	1-Sep-98	3-Feb-99	5
E	3-Sep-98	24-Feb-99	6
F	1-Sep-98	24-Feb-99	6
G	1-Sep-98	24-Feb-99	6
H	1-Sep-98	24-Feb-99	6
I	1-Sep-98	24-Feb-99	6
J	1-Sep-98	4-Mar-99	6
K	1-Sep-98	19-Mar-99	7
L	1-Oct-98	19-Mar-99	6
M	1-Sep-98	19-Mar-99	7
N	1-Oct-98	12-Aug-99	11

Note: Shading represent the sites visited as part of the audit.

A complete listing of the 14 institutions reviewed can be found in Exhibit A. This includes dates of proposal acceptance letters, effective date of contracts, date contracts were signed by PRDE officials, date PRDE drew Governor's Program funds from ED, number of months between PRDE signing the contract and first draw from ED, date the institutions received their first Governor's Program payment for the 1998-99 award year, and number of months it took subrecipients to receive funds after the contract was signed by PRDE.

PRDE officials explained that institutions failed to provide the necessary documentation, resulting in the slow processing of the contracts. Contrary to PRDE statements, the institutions' officials interviewed stated they did not provide additional documentation to PRDE prior to signing the contracts. PRDE officials also stated contracts were backdated because Puerto Rico law does not permit retroactive payment for contract services.

Recommendations

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

- 1.1 Institute controls to assure contracts are signed by both parties prior to the beginning of the award period; and
- 1.2 Conduct an independent assessment of the new control procedures to determine that controls are sufficient.

PRDE's response

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

- moving to earlier dates the orientations for applicants, the submission of proposals, and evaluation process;
- encouraging applicants to submit all necessary documentation with their proposal in order to avoid delays in the contracting process;
- revising the Notice Award letter to prospective contractors to include that within 10 days of receipt of the letter, they must submit all certifications to PRDE; and
- sending follow-up letters for any contractor who does not comply with the 10-day deadline identifying the specific missing documents and stating that if certifications are not submitted within 10 days, the award will be in jeopardy.

OIG's reply

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

Finding 2

PRDE failed to follow the Cash Management Improvement Act, Zero Balance Accounting

Beginning in December 1998, PRDE drew \$1,862,988 in excess of immediate cash needs and held the funds for 23 to 140 days before making *initial* disbursements to subrecipients. As of January 25, 2000, PRDE still held funds totaling \$132,975. For example, PRDE drew \$650,000 on December 9, 1998, but did not disburse any funds to the subrecipient until 52 days later. PRDE still had \$70,214 to disburse, 413 days after drawing funds from ED. Further, PRDE failed to follow the Cash Management Improvement Act (CMIA), Zero Balance Accounting for cash draws because it believed the Governor's Program did not fall under the CMIA, Zero Balance Accounting.

Federal regulation 31 CFR 205.2 sets forth the CMIA and states that Subparts A and B apply to programs listed in the Catalog of Federal Domestic Assistance (CFDA). As per the Agreement between the Commonwealth of Puerto Rico and the Secretary of the Treasury, United States Department of the Treasury (Agreement with the State pursuant to Section 5 of Pub. L. 101-453), the State's threshold for major Federal assistance programs is \$7 million. The Safe and Drug-Free Schools and Communities State Grant (CFDA 84.186) is included in the programs that meet or exceed this threshold.

Federal regulation 31 CFR 205.7 (c)(1) sets forth the Zero Balance Accounting for the CMIA. It requires a state to request funds the same day it pays out funds for program purposes, and a Federal agency shall deposit funds in a State account the same day it receives a request for funds.

Not minimizing the time elapsing between receipt and disbursement of program funds resulted in PRDE holding funds for over one year

PRDE did not follow the Zero Balance Accounting for the Governor's Program. Instead, PRDE requested from ED the total amount of the contracts as soon as the contracts were signed. These funds remained in the Puerto Rico Treasury Department account at the Puerto Rico Governmental Development Bank earning interest until PRDE processed invoices for payment. During the period December 9, 1998 to August 13, 1999, PRDE drew \$1,862,988 from ED for Governor's Program contracts for 14 institutions. Our review found PRDE held funds between 23 and 413 days before disbursement. As of January 25, 2000, PRDE had not disbursed balances totaling \$132,975 to 8 of the 14 institutions. See Exhibit B

for the number of days PRDE held each cash balance.

Recommendations

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

- 2.1 Follow the CMIA, Zero Balance Accounting for the Governor's Program;
- 2.2 Compute the interest owed to the Federal government for the funds that were at the Puerto Rico Governmental Development Bank earning interest;
- 2.3 Determine the current excess cash held and return it to ED; and
- 2.4 Conduct an independent assessment of the new control procedures to determine that controls are sufficient.

PRDE's response

PRDE agreed with this finding and will follow the CMIA, Zero Balance Accounting for the Governor's Program, will compute the interest owed to the Federal government for the funds that were earning interest at the Puerto Rico Governmental Development Bank, and determine the current excess cash held and will return to ED any funds that have been drawn in advance that are not in compliance with excess cash requirements at the resolution of this audit. PRDE updated payments made to subrecipients through August 31, 2000, leaving a remaining balance of \$79,090 in excess cash. In addition, PRDE stated that there was a \$20 mathematical error in the outstanding balance of institution E.

OIG's reply

PRDE's corrective actions should resolve the situation. We checked the working papers of Institution E and determined the check for that payment was made for \$51,771 when it was supposed to be for \$51,551 (\$11,273+\$32,465+\$8,013). As a result, PRDE overpaid \$20. We accepted the evidence that PRDE provided for the payments made subsequent to our review. Consequently, the total excess cash balance was reduced to \$80,010 (PRDE's outstanding balance of \$79,090 plus the \$20 overpaid). We did not reduce the amount of excess cash reported to reflect PRDE's updated balance through August 31, 2000 because it shows the severity of the excess cash balances for a small program. PRDE should work with program officials to determine the excess cash balance that should be returned to ED. We added recommendation 2.4 to address the corrective action PRDE stated would be taken.

Finding 3

PRDE lacked supporting documentation for cash draws and payments made to subrecipients

PRDE lacked adequate controls to properly review subrecipients' invoices in order to reconcile "advance"¹ payments and to properly evidence Governor's Program funds drawn from ED. As a result, PRDE drew \$23,094 of Governor's Program funds without proper supporting evidence and failed to adjust \$53,988 in "advance" payments to subrecipients.

Federal regulation 34 CFR 80.20 (a) states that, "A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to: ... (2) permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes."

Federal regulations 34 CFR 80.20 (b) states that, "The financial management systems of grantees and subgrantees, must meet the following standards: (1) accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant...."

Unsupported draws totaled \$23,094

We traced six draws made during the period of December 9, 1998 through August 13, 1999 totaling \$1,862,988 on behalf of 14 judgmentally selected institutions that participated in the Governor's Program during award year 1998-99. Our review disclosed that PRDE could not provide supporting documentation for \$23,094. Specifically PRDE,

- requested \$14,426 in a February 3, 1999 draw, yet these same funds were previously requested in a December 9,

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

- 1998 draw; and
- could not provide supporting evidence for \$8,668 included in a March 19, 1999 draw.

PRDE was unaware of the duplicate request and the unsupported draw.

***Unreconciled
"advance" payments
totaled \$53,988***

PRDE began making "advance" payments of Governor's Program funds to subrecipients on a quarterly basis during the 1998-99 award year. According to established procedures, subrecipients must submit invoices to PRDE based on expenses they expect to incur during the first quarter of the award year. For each of the remaining three quarters, subgrantees must provide evidence of actual expenses incurred during the previous quarter in order to receive the next advance payment. However, based on our review of PRDE's records, PRDE's actual procedure does not always result in advance payments to subrecipients. Once the contract is signed by both parties, which is three to eleven months after the beginning of the award period, the subrecipient's first payment is a reimbursement of expenses incurred from the start of the program through the date the contract is signed. Subsequent payments are then made under the advance payment method.

PRDE did not perform reconciliations for estimated expenses paid to subrecipients and the actual expenses reported for six institutions tested. As a result, five of the six institutions received payments totaling \$53,988 for which PRDE did not have supporting documentation. As of January 25, 2000, PRDE made no effort to request the supporting documentation for the expenses paid in advance or request that the excess funds disbursed be returned.

Recommendations

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

- 3.1 Return the Federal funds totaling \$23,094 that could not be supported;
- 3.2 Provide the supporting documentation for the \$53,988 of unsupported expenses paid to subrecipients, otherwise, return that amount to ED;
- 3.3 Provide Finance Division and External Resources personnel proper training to ensure that they verify supporting documentation;

- 3.4 Perform the quarterly reconciliations needed to ensure compliance with the established procedures;
- 3.5 Apply a reimbursement method on the last payment made to subrecipients; and
- 3.6 Conduct an independent assessment of the new control procedures to determine that controls are sufficient.

PRDE's response

PRDE disagreed with this finding. PRDE stated that the \$14,426 unsupported draw should not be required to be returned because these funds were included in the excess cash calculation in Finding 2. Regarding the \$8,668 unsupported draw, PRDE stated that it was going to provide evidence that a total of \$8,308 was paid. In addition, PRDE disagreed with the fact that the advance payments were not reconciled. PRDE claimed that in most cases it reconciled the accounts either on a timely basis or subsequent to our review. Despite its disagreement, PRDE stated it will provide proper training to the Finance Division and External Resources personnel to ensure that they verify the supporting documentation, perform quarterly reconciliation to ensure the compliance with the established procedures, and apply the reimbursement method on the last payment to subrecipients.

OIG's reply

PRDE's corrective actions should resolve the situation; however, contrary to what PRDE stated, the unsupported draw of \$14,426 was included in the February 3, 1999 draw of \$250,000. The requisition for this draw showed a payment of \$15,727 for Institution A, however; this payment was made from the \$650,000 draw of Institution A and not from the \$250,000 draw. Therefore, it is not part of the excess cash balance of Institution A shown in Finding 2 and PRDE should return the \$14,426 drawn in excess in the \$250,000 draw. Regarding the \$8,668 unsupported draw, PRDE stated that it would provide evidence that a total of \$8,308 was paid, however it did not provide the documentation, therefore, our position remains the same. The evidence that PRDE presented for the unreconciled "advance" payments totaling \$53,988 are the payment vouchers, not the supporting evidence of expenses incurred. Therefore, our position remains the same. Additionally, although PRDE stated that it reconciled the accounts on a timely basis, at the time of our review, the expense reports were not reconciled. We added recommendation 3.6 to address the corrective action PRDE stated would be taken.

Finding 4

PRDE failed to pay the correct invoice amount, drew excess Governor's Program funds, and erroneously charged accounts due to inadequate reconciliation and validation by departments

In addition to the inadequate cash management controls reported in Findings 2 and 3, PRDE also lacked proper controls due to inadequate reconciliation and validation by departments responsible for approving and disbursing Governor's Program funds. As a result PRDE:

- underpaid funds totaling \$400 to one institution;
- drew \$270 in excess of the contract amount; and
- erroneously charged the accounts of an institution that received both SEA and Governor's Program funds.

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

External Resources Office did not verify with the Finance Division that subrecipients' payments were made correctly.

PRDE's Office of External Resources was responsible for operational, fiscal, and other matters related to Federal programs. All institutions that participated in the Governor's Program submitted to the Office of External Resources all requests for payment. The Office of External Resources then verified and certified the invoices and sent them to the Finance Division which in turn, made a final revision to the invoices and disbursed the funds. However, we found that the Office of External Resources did not verify the final disbursements made because they believed that disbursements were made by the Finance Division as approved and timely.

During our review, we traced payments made to 14 institutions and found that PRDE had incorrect payment information for three institutions. PRDE overpaid \$9,419 to one institution; however there was no monetary effect because PRDE made the appropriate adjustment. The second institution submitted an expense report for \$28,844, yet PRDE issued a check for \$28,444, underpaying the institution by \$400. For the third institution, PRDE requested \$270 in excess of the contract award and did not award the funds to the subrecipient. These funds are in the Puerto Rico Governmental Development Bank earning interest.

We also found that for one institution, which received both Governor's Program funds and State Education Agency funds, PRDE charged State fund expenses totaling \$15,235 to the Federal funds account and \$19,935 expenses from Federal funds to State funds. As a result, PRDE overcharged \$4,700 to State funds.

The External Resources fiscal officer was not aware of the payment discrepancies mentioned above.

Recommendations

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

- 4.1 Make the \$400 payment to the institution;
- 4.2 Return the Federal funds totaling \$270;
- 4.3 Make an adjusting entry for the \$4,700 of overcharged expenses;
- 4.4 Strengthen its internal control structure by establishing better communication between departments thereby assuring that periodic reviews and reconciling financial information processed at separate departments are implemented; and
- 4.5 Conduct an independent assessment of the new control procedures to determine that controls are sufficient.

PRDE's response

PRDE disagreed with this finding. PRDE stated that it maintains a strong system of checks and balances. In addition PRDE acknowledged that although it drew \$270 in excess, this amount was not paid to the contractor and is included in the remaining

balance of \$360 referenced in Finding 3. Despite PRDE's disagreement, it agreed to strengthen its existing reconciliation and validation policies through additional training of PRDE staff, as well as orientation to the proponents.

OIG's reply

PRDE's corrective action should resolve the situation. We accepted the evidence that PRDE submitted for the \$400 payment and the \$4,700 adjusting entry. However, the \$270 that was drawn in excess was not included in the excess cash balance of Finding 2 because after the \$18,630 direct payment, the balance was \$41,370; this was the balance used in the schedule not the \$41,640 that was requested; therefore PRDE should return the \$270. We added recommendation 4.5 to address the corrective action PRDE stated would be taken.

Other Matters

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

Background

The purpose of the Safe and Drug Free Schools and Communities Act is to provide Federal financial assistance to States for school and community-based programs on drug and alcohol abuse education and prevention, including programs to prevent violence in and around schools. Of each state's allocation, 80 percent is administered by the State Educational Agency (SEA) for drug and violence prevention programs in local school systems. The remaining 20 percent is used by the Governor's office (Governor's Program) for grants and contracts with community-based organizations for broad based prevention programs. Governor's Program funds are for projects developed by parents, community action programs, training and job placement agencies, non-profit entities, other general programs and education activities for the prevention of drugs and violence. The Governor's office must award 10 percent of its funds to law enforcement education partnerships.

During award year 1998-99, 25 private institutions participated in the Governor's Program. PRDE assigned \$2,585,522 to the Governor's Program funds for award year 1998-99. The Governor's Program functions on a contract basis. PRDE "advances"² funds to institutions not considered high risk, and pays on a reimbursement method to high-risk institutions. Initially, PRDE used the reimbursement method for all contracts. However, in response to complaints to ED from subrecipients about untimely payment of contract funds, PRDE notified ED that they developed a process for providing advance payments to subrecipients and contractors effective February 24, 1999.

Audit objectives

The purpose of our audit was to determine if PRDE's administration of the Governor's Program was proper.

Specific objectives included the following:

1. Determine if PRDE has adequate controls to request Governor's Program funds from ED and distribute the funds to subrecipients;
2. Determine if PRDE has a system to monitor sub-recipients;
3. Determine if PRDE has adequate controls for administering contracts for Governor's Safe & Drug-Free School Program funds; and

²See Finding 3 for a detailed explanation of the "advance" payment method and Finding 1 for the timeliness of payments.

4. Determine the flow of the federal funds from ED to PRDE through to the subrecipients and/or contractors.

Methodology & scope

To accomplish our objectives, we interviewed officials at: Puerto Rico Comptroller's Office, Puerto Rico Treasury Department, Puerto Rico Governmental Development Bank, External Resources Office, and PRDE's Finance Division to evaluate PRDE's process for administering the Governor's Program. We also reviewed PRDE's A-133 audit report for the years ending June 30, 1996 and June 30, 1997.

A total of 25 institutions participated in the Governor's Program for award year 1998-99. We judgmentally selected 14 institutions for testing. Our sample included four institutions also tested in the Even Start Program audit, which was conducted simultaneously; eight institutions that received over \$55,000 in Governor's Program funds; one institution because of complaints to ED program officials; and one institution which corresponds to the 10 percent law enforcement contract. We selected all the draws reported in the Grant Administration and Payment System (GAPS) award history report for the period December 9, 1998 through April 23, 1999 and tested these funds drawn for 13 of the 14 institutions in our sample. We selected an additional draw made on August 13, 1999 that corresponded to the 10 percent law enforcement portion of the Governor's Program. Of the 14 institutions selected, we conducted site visits to 6 institutions to interview institutions' officials. We also reviewed the institutions' expense files at PRDE's Office of External Resources.

Data reliability assessment

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

Audit period

Our audit covered the period December 9, 1998 through August 13, 1999. Updated data as of January 25, 2000 was incorporated into the findings presented. We performed fieldwork at PRDE's offices in Hato Rey, Puerto Rico from June 28, 1999 through February 29, 2000. We determined the status of the 1998 and 1999 Single Audit reports on June 13, 2000. In addition, we conducted two site visits to institutions on September 24, 1999 and the other four in September 16, 1999, November 12, 1999, December 14, 1999 and January 18, 2000, respectively. Our audit was conducted in accordance with government auditing standards appropriate to the limited scope of the audit described above.

Management controls

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

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

- Cash management
- Contracts

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

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Director, State and Local Assistance Advisory & Assistance Team.....	1
Area Managers	6

Number of months for subrecipients to receive first payment

Institution	Proposal acceptance letter date	Effective date of contract	Date PRDE officials signed the contract	Date PRDE drew funds from ED	# of months between PRDE signing the contract and first draw from ED	Date of first payment to subrecipients	# of months for subrecipients to receive funds after the contract is signed by PRDE
A	9/4/98	9/1/98	8/30/98	12/9/98	3	1/29/99	5
B	8/11/98	9/1/98	9/1/98	2/3/99	5	3/11/99	6
C	9/14/98	9/1/98	9/1/98	2/3/99	5	2/25/99	6
D	8/11/98	9/1/98	8/31/98	2/3/99	5	6/22/99	10
E	8/11/98	9/3/98	9/3/98	2/24/99	6	3/29/99	7
F	8/11/98	9/1/98	9/1/98	2/24/99	6	3/29/99	7
G	8/26/98	9/1/98	9/1/98	2/24/99	6	3/31/99	7
H	8/11/98	9/1/98	9/1/98	2/24/99	6	4/5/99	7
I	8/11/98	9/1/98	9/1/98	2/24/99	6	5/10/99	8
J	8/11/98	9/1/98	9/1/98	3/4/99	6	5/17/99	9
K	8/26/98	9/1/98	8/31/98	3/19/99	7	4/27/99	8
L	9/14/98	10/1/98	10/1/98	3/19/99	6	6/14/99	9
M	9/14/98	9/1/98	9/1/98	3/19/99	7	5/5/99	8
N	8/26/98	10/1/98	9/30/98	8/12/99	11	9/30/99	12

Note: Shading represents the site visited as part of the audit.

Number of days Governor's Safe & Drug Free School Program funds were held at the Puerto Rico Governmental Development Bank

Institution	Amount requested	Date funds were received		Period covered by invoices	Payment voucher date	Payments made	Check amount	Balance	Date check was cashed	ExcessDays	
		requested by PRDE	Date PRGDB received the funds							as of PRGDB 1/25/00	
A	\$650,000	12/09/98	12/09/98					\$ 650,000		52	
				Sept-98	01/22/99	\$ 11,502					
				Oct-98	01/22/99	\$ 33,776					
				Nov-98	01/22/99	\$ 11,633	\$ 56,912	\$ 593,088	01/29/99	72	
				Dec-98	02/02/99	\$ 15,727	\$ 15,727	\$ 577,362	02/18/99	93	
				Jan-99	02/23/99	\$ 53,669	\$ 53,669	\$ 523,693	03/11/99	114	
				Feb-99	03/25/99	\$ 86,362	\$ 86,362	\$ 437,331	04/01/99	160	
				Mar-99	05/05/99	\$ 16,062	\$ 16,062	\$ 421,269	05/17/99	196	
				Apr-99	06/14/99	\$ 41,679	\$ 41,679	\$ 379,589	06/22/99	239	
				May-99	07/29/99	\$ 11,548					
				Jun-99	07/29/99	\$ 43,857	\$ 55,405	\$ 324,185	08/04/99	266	
				Jul-99	08/23/99	\$ 25,316	\$ 25,316	\$ 298,869	08/31/99	323	
				Aug-99	10/15/99	\$ 47,060	\$ 47,060	\$ 251,809	10/27/99	364	
Sep-99	11/29/99	\$ 170,213	\$ 170,213	\$ 81,596	12/07/99	379					
Oct-99	12/17/99	\$ 11,381	\$ 11,381	\$ 70,214	12/22/99	413					
B	\$75,000	02/03/99	02/03/99					\$ 75,000		37	
				Oct-98	02/19/99	\$ 3,413					
				Nov-98	02/19/99	\$ 5,565					
				Dec-98	02/19/99	\$ 5,042					
				Jan-99	02/19/99	\$ 7,595	\$ 21,615	\$ 53,385	03/11/99	66	
				Feb-99	03/15/99	\$ 6,035	\$ 6,035	\$ 47,350	04/09/99	108	
				Mar-99	04/26/99	\$ 12,754	\$ 12,754	\$ 34,596	05/21/99	125	
				April - June 99	05/05/99	\$ 28,687	\$ 28,687	\$ 5,909	06/07/99	236	
				Jul-99	08/27/99	\$ 5,909	\$ 5,909	\$ -	09/26/99		
C	\$65,574	02/03/99	02/03/99					\$ 100,000		23	
				Sept-98 - Jan-99	02/10/99	\$ 34,426	\$ 34,426	\$ 65,574	02/25/99	77	
				Feb-99 - April 99	04/06/99	\$ 28,444	\$ 28,444	\$ 37,130	04/20/99	135	
				May - June 99	05/19/99	\$ 36,730	\$ 57,691	\$ 400	06/17/99	357	
D	\$95,000	02/03/99	02/03/99					\$ 95,000		140	
				Sept-98	04/06/99	\$ 7,938					
				Oct-98	04/06/99	\$ 11,588					
				Nov-98	04/06/99	\$ 6,874					
				Dec-98	04/06/99	\$ 6,793					
				Jan-99	04/06/99	\$ 8,537					
				Feb-99	04/06/99	\$ 6,859					
				Mar-99	04/26/99	\$ 7,527	\$ 56,115	\$ 38,885	06/22/99	148	
				Apr-99	06/03/99	\$ 8,251	\$ 8,251	\$ 30,634	06/30/99	213	
				May-99	06/24/99	\$ 6,700	\$ 6,700	\$ 23,934	09/03/99	202	
				Jun-99	08/05/99	\$ 6,261	\$ 6,261	\$ 17,674	08/23/99	268	
				July - Aug 99	10/05/99	\$ 12,497	\$ 12,497	\$ 5,176	10/28/99	357	
				E	\$100,000	02/23/99	02/24/99				
Oct-98	02/17/99	\$ 2,809									
Nov-98	02/17/99	\$ 7,893	\$ 10,701					\$ 89,299	06/30/99	34	
Dec-98	02/23/99	\$ 8,089									
Jan-99	03/15/99	\$ 9,963	\$ 40,955					\$ 71,246	03/29/99	49	
Feb-99	03/26/99	\$ 8,175	\$ 8,175					\$ 63,071	04/13/99	101	
Mar-99	05/05/99	\$ 10,035	\$ 10,035					\$ 53,036	06/04/99	156	
Apr-99	06/07/99	\$ 8,767	\$ 16,202					\$ 44,268	07/29/99	175	
May-99	08/04/99	\$ 11,273									
Jun-99	08/04/99	\$ 32,465	\$ 43,737					\$ 531	08/17/99	336	
F	\$50,000	02/23/99	02/24/99								
				Sept-98	02/17/99	\$ 2,096					
				Oct-98	02/17/99	\$ 3,662					
				Nov-98	02/17/99	\$ 3,661					
				Dec-99	02/19/99	\$ 13,484	\$ 40,955	\$ 27,097	03/29/99	114	
				Jan-99	05/25/99	\$ 3,835					
				Feb-99	05/25/99	\$ 2,972					
				Mar-99	05/25/99	\$ 2,406	\$ 9,212	\$ 17,885	06/17/99	175	
				Apr-99	08/05/99	\$ 3,920					
				May-99	08/05/99	\$ 4,094	\$ 8,014	\$ 9,871	08/17/99	210	
Jun-99	08/31/99	\$ 9,738	\$ 9,738	\$ 133	09/21/99	238					
Jul-99	09/24/99	\$ 133	\$ 133	\$ -	10/19/99						

Number of days Governor's Safe & Drug Free School Program funds were held at the Puerto Rico Governmental Development Bank

Institution	Amount requested	Date funds were requested by PRDE		Date PRGDB received the funds	Period covered by invoices	Payment voucher date	Payments made	Check amount	Balance	Date check was cashed	ExcessDays funds were in PRGDB as of 1/25/00	
G	\$75,000	02/23/99	02/24/99						\$ 75,000		36	
					Oct 98 - Jan 99	02/19/99	\$ 25,681					
					March 99 - May 99	03/10/99	\$ 23,234	\$ 48,915	\$ 26,085	03/31/99	141	
					June 99 - Sept. 99	06/03/99	\$ 26,085		\$ -	07/14/99		
H	\$250,000	02/24/99	02/24/99						\$ 250,000		41	
					Sept. 98	02/23/99	\$ 15,789					
					Oct. 98	02/23/99	\$ 14,510					
					Nov. 98	02/23/99	\$ 15,933					
					Dec. 98	03/10/99	\$ 17,553	\$ 63,785	\$ 186,215	04/05/99	85	
					Jan-99	04/27/99	\$ 18,153	\$ 18,153	\$ 168,062	05/19/99	104	
					Feb-99	05/14/99	\$ 22,478	\$ 22,478	\$ 145,584	06/07/99	139	
					Mar-99	06/14/99	\$ 21,594	\$ 21,594	\$ 123,989	07/12/99	168	
					Apr-99	07/09/99	\$ 17,545	\$ 17,545	\$ 106,445	08/10/99	182	
					May-99	08/09/99	\$ 16,708	\$ 16,708	\$ 89,737	08/24/99	205	
					Jun-99	08/18/99	\$ 16,596	\$ 16,596	\$ 73,141	09/16/99	244	
					Jul-99	09/27/99	\$ 16,849	\$ 16,849	\$ 56,292	10/25/99	336	
				I	\$75,000	02/24/99	02/24/99					
	Sept. 98 - Jan. 99	02/19/99	\$ 8,060					\$ 8,060	\$ 66,940	05/10/99	183	
	Feb. - June 99	08/05/99	\$ 66,940					\$ 66,940	\$ -	08/25/99		
J	\$50,000	03/04/99	03/04/99						\$ 50,000		75	
					Sept. 98	03/15/99	\$ 400					
					Oct. 98	03/15/99	\$ 2,035					
					Nov. 98	03/15/99	\$ 4,335					
					Dec. 98	03/15/99	\$ 3,667					
					Jan-99	03/15/99	\$ 3,795	\$ 14,232	\$ 35,768	05/17/99	75	
					Feb. 99 - April 99	04/07/99	\$ 13,594	\$ 13,594	\$ 22,173	05/17/99	119	
	May 99 - June 99	05/14/99	\$ 22,173	\$ 22,173	\$ -	06/30/99						
K	\$41,640	03/19/99	03/19/99						\$ 60,000		40	
					Nov., Dec. 98, Jan. 99	03/12/99	\$ 18,630	\$ 18,630	\$ 41,370	04/27/99	99	
					Feb. and March. 99	04/27/99	\$ 12,484	\$ 12,484	\$ 28,886	06/25/99	104	
					Apr-99	06/03/99	\$ 6,210	\$ 6,210	\$ 22,676	06/30/99	165	
					May-99	06/25/99	\$ 6,210					
					Jun-99	08/03/99	\$ 6,210	\$ 12,420	\$ 10,256	08/30/99	228	
					Jul-99	10/06/99	\$ 9,896	\$ 9,896	\$ 360	11/01/99	313	
L	\$94,693	03/19/99	03/19/99						\$ 94,693		88	
					Nov., Dec.98, Jan. Feb	05/17/99	\$ 28,825	\$ 28,825	\$ 65,867.65	06/14/99	251	
					March - Jul 99	10/28/99	\$ 65,867	\$ 65,867	\$ 1	11/24/99	313	
M	\$75,000	03/19/99	03/19/99						\$ 75,000		48	
					Feb. 99	03/26/99	\$ 53,721	\$ 53,721	\$ 21,279	05/05/99	97	
					Apr-99	06/09/99	\$ 21,279	\$ 21,279	\$ -	06/23/99	313	
N	\$166,081	08/12/99	08/13/99						\$ 166,081			
					Oct 98 - March 99	08/03/99	\$ 77,713	N/A	\$ 88,368			
					Apr-99	08/03/99	\$ 67,698	N/A	\$ 20,670			
					May-99	08/03/99	\$ 9,449	N/A	\$ 11,221			
					Jun-99	08/03/99	\$ 11,220	N/A	\$ 1	09/30/99	49	
Total amount r									\$ 1,862,988			
Total outstanding balance									\$ 132,975			

The payment information is through January 25, 2000



DEPARTMENT OF EDUCATION

OFFICE OF THE SECRETARY

SEP - 5 2001

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

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

Dear Mr. Schuftz:

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

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

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

Sincerely,

Victor Fajardo, Ed.D.
Secretary

**OIG DRAFT AUDIT REPORT
GOVERNOR'S SAFE AND DRUG FREE SCHOOLS
AUDIT CONTROL NO. ED-OIG/A01-90007**

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

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

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

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

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

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

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

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

RECOMMENDATIONS

1.1. Institute controls to assure contracts and budget assignments are signed by both parties prior to the beginning of the award period.

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

1. **Orientation and Proposal Submission** – PRDE has moved the orientation and submission dates to earlier in the spring. In February, 2000, a meeting was held to explain the proposal submission process to prospective contractors. As part of the orientation process, applicants were informed of the specific certifications required and encouraged to submit all necessary documentation with their proposal. It was explained that a failure on the part of a contractor to submit required documentation in a timely fashion will necessarily delay the process. Proposals were due on April 15, rather than in July, as had been the practice in past years.
2. **Proposal Review Process** – The PRDE has taken steps to streamline the proposal evaluation process. This year, all steps in the evaluation process were moved earlier to take place in May and June. Proposals were approved on July 10, rather than September, as had been the past practice.
3. **Notice of Award** -- The Notice of Award was revised to state that: 1) within 10 days of receipt of the letter, prospective contractors must submit all certifications and a revised budget to PRDE (a list was attached), and 2) work cannot begin without a signed, valid contract.

(See Exhibit 5, sample Notice of Award for Even Start – same format as Notice of Award in Governor's Program)

4. Follow-up letter – For any contractor who did not comply with the 10-day deadline set out in the Notice of Award, the PRDE will send a follow-up letter, identifying the specific missing documents and stating that if certifications are not submitted within ten (10) days, the award is in jeopardy. (See Exhibit 6, sample follow-up letter – same format as Governor's Program)

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

Finding No. 2 – PRDE failed to follow the Cash Management Improvement Act, Zero Balance Accounting

a) Not minimizing time elapsing between receipt and disbursement of funds

The OIG's draft finding arises from the fact that PRDE considered the Governor's Program to be covered by Subpart B of the Cash Management Improvement Act. PRDE reached this conclusion because it viewed the Governor's Program as separate and distinct from the SEA-LEA SDFSCA Program, and the Governor's program, alone, did not meet the \$7 million threshold for Subpart A eligibility.

In most instances, the federal government treats the Governor's Program separately from the SEA SDFSCA Program. The program applications are distinct – the SEA program was included in the Consolidated Plan and the Governor's program was a separate plan. The SEA program may be included in Consolidated Administration and the Governor's Program may not. Moreover, the federal government has assigned different CFDA numbers to the programs – the SEA program is S186A970040 and the Governor's program is S186B970040. And the GAPS system treats these programs separately for draw down purposes. (See Exhibit 7, screen from GAPS system) Finally, compliance requirements differ substantially for the two programs.

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

The report identifies an amount of \$132,975 in excess cash that was being held as of January 25, 2000. The PRDE revises the OIG's balances for 3 institutions: Centro San Francisco (see \$400 payment referenced in Finding 4), Centro Sor Isolina-Ponce (auditors' mathematical error of \$20), and LULAC (see attached payment voucher #00176743, for \$53,466.55, Exhibit 9). The following chart shows that the total excess cash balance as of August 31, 2000, was \$79,090.

Institution	Letter of Exhibit B	Outstanding Balance
Yo si Puedo	A	\$70,215
Municipio de Aguada	D	5,176
Centro San Isolina- Ponce	E	511.00
LULAC	H	2,828
Municipio de Arecibo	K	360.00
TOTAL		\$79,090

RECOMMENDATIONS:

2.1 – Follow the CMIA, Zero Balance Accounting for the Governor's Program.

The PRDE agrees to follow the Zero Balance Accounting for the Governor's Program. This change in policy has already been submitted to the PR Treasury and the Cash Management Agreement will be revised accordingly. (See Exhibit 10)

2.2 – Compute interest owed to the federal government for funds that were at the PR Government Development Bank earning interest.

The PRDE agrees that interest is owed to the federal government for funds that were at the PR GDB earning interest.

2.3 – Determine the current excess cash held and return it to ED.

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

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

The OIG report cites deficiencies in PRDE's process of making advance payments to contractors. The OIG should be aware that in 1998, over the serious objection of the PRDE, the USDE mandated that PRDE provide advanced payments to subrecipients. (See Exhibit 11, documenting USDE pressure to abandon reimbursement for contractors and use advance funding). Despite his serious concerns with implementing such a system in Puerto Rico, the PRDE implemented the USDE's mandate beginning in the 1998-99 school year.

(a) Unsupported draws total \$23,094

The \$14,426 identified as unsupported draws was already included in the PRDE's calculation of excess cash from Finding 2, as a balance on the "Yo Si Puedo" contract. With regard to the \$8,667.50, a total of \$8,307.50 was supported and paid (this

documentation will be provided to the OIG as soon as it is prepared), leaving an unsupported balance of \$360.

(b) Unreconciled "advance" payments totaled \$53,988

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

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

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

The draft report alleges that the PRDE failed to reconcile advance payments to contractors, resulting in \$53,988 of undocumented payments. The PRDE disagrees with this finding. In most cases, the PRDE either reconciled the accounts on a timely basis or reconciled the accounts subsequent to the OIG's review date. Attachment 13 provides evidence for these reconciliations and shows a remaining unreconciled balance of \$21,521.98. The PRDE is working with the three contractors at issue in order to obtain supporting documentation or request a return of funds.

Institution	Unsupported payments
Centro Sor Isolina-Caimito	\$9,418.52
Asociación Apoyo Educativo	5,447.31
Esc. Libre de Drogas y Armas	6,656.08
Total	\$21,521.98

RECOMMENDATIONS:

3.1. – Return the Federal funds totaling \$23,094 that could not be supported.

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

3.2 – Provide the supporting documentation for the \$53,988 of unsupported expenses paid to subrecipients, otherwise, return that amount to ED.

The PRDE provides documentation of expenses at Exhibit 13 and is working with contractors to resolve outstanding amounts. Any expenses for which the PRDE cannot show support should be returned to ED.

3.3 – Provide Finance Division and External Resources personnel proper training to ensure that they verify supporting documentation.

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

3.4 – Perform the quarterly reconciliations needed to ensure compliance with the established procedure;

The PRDE has been able to apply its quarterly reconciliation process more consistently and uniformly since it has increased the administrative capacity of the Governor's program. The Governor's program now has a fiscal officer in the External Resources Office, as well as the program director and clerical staff. This enhanced support will result in better compliance with the established reconciliation procedure.

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

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

Finding No. 4 – PRDE failed to pay the correct invoice amount, drew excess Governor's Program funds, and erroneously charged accounts due to inadequate reconciliation and validation by departments.

The finding alleges that the PRDE lacked proper controls due to inadequate reconciliation and validation by departments responsible for approving and disbursing Governor's Program funds. The PRDE disagrees with the finding. As noted in its response to Finding 3, the PRDE maintains a strong system of checks and balances. Moreover, in January, 2000, the PRDE formalized its system for Pre-Payment Procedures, including reconciliation and validation. (See Exhibit 12)

RECOMMENDATIONS:

4.1 Make the \$400 payment to the institution.

This payment of \$400 was made on April 19, 2000, document #00178070. (Exhibit 14)

4.2 Return the federal funds totaling \$270.

While the PRDE acknowledges drawing \$270 in excess, this amount was not paid to the contractor and is included in the remaining balance of \$360, referenced in Finding 3. (Exhibit 15)

4.3 Make an adjusting entry for the \$4,700 of overcharged expenses.

This adjustment was made on September 29, 1999, in journal voucher number 081051788. (Exhibit 16)

4.4 Strengthen its internal control structure by establishing better communication between departments thereby assuring that periodic reviews and reconciling financial information processed at separate departments are implemented.

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