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July 25, 2006

Control Number
ED-OIG/A02F0017

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

Dear Secretary Aragunde:

This **Final Audit Report**, entitled *Puerto Rico Department of Education, Salinas School District's Administration of Title I Funds*, presents the results of our audit. The objective of the audit was to determine whether the Puerto Rico Department of Education (PRDE), Salinas School District (Salinas), properly administered Elementary and Secondary Education Act (ESEA), Title I, Part A (Title I), non-salary funds in accordance with grant requirements, and Federal laws and regulations. Our review covered the grant period, July 1, 2003, through June 30, 2004.

In its response to the draft report, dated June 15, 2006, PRDE generally concurred with our findings and recommendations. Based on proper documentation PRDE provided supporting certain expenditures, we adjusted Findings 1 and 2. Because of the voluminous number of attachments included in PRDE's comments to the draft report, we have not included them in this report. Copies of the attachments are available on request. We summarized PRDE's comments at the end of each finding and included them as **Attachment B** to the report.

BACKGROUND

The community schools are the functional units of the public educational system of Puerto Rico. Puerto Rico Law Number 18 of June 16, 1993, created the community schools and granted them academic, fiscal, and administrative autonomy. The Community Schools Administration (CSA), a division of PRDE, acts as a pass-through entity for the transfer of State and Federal funds to the community schools.

In January 2002, the PRDE Secretary established the Fiscal Components of the community schools,¹ and placed them in the school districts.² The Fiscal Components included Purchasing, Payment, Bank Account Reconciliation, Receiving and Collecting Officers, and Property Custodians.

For the grant period, July 1, 2003, through June 30, 2004, the CSA transferred \$670,689 in Title I, non-salary funds to the PRDE-Salinas community schools bank accounts. PRDE-Salinas had a total of 20 community schools.

All of the PRDE-Salinas schools received Title I funds. The Title I program is the largest elementary and secondary education program, which supplements State and local funding for low-achieving children, especially in high-poverty schools.³ Title I provides financial assistance to ensure that all children have a fair, equal, and significant opportunity to obtain a high-quality education and reach, at a minimum, proficiency on challenging State academic achievement standards and State academic assessments.

Title I funds may be used for schoolwide or for targeted assistance programs. Under a schoolwide program, Title I funds can be consolidated with other Federal, State, and local funds to upgrade the entire educational program of a school if not less than 40 percent of the children enrolled in the school are from low-income families. Federal funds consolidated in a schoolwide program lose their specific program identity and may be used for any costs of a schoolwide program. All 20 PRDE-Salinas schools operated schoolwide programs.

AUDIT RESULTS

In general, PRDE-Salinas properly administered Title I, non-salary funds in accordance with grant requirements, and Federal laws and regulations. However, we found that PRDE-Salinas failed to provide proper documentation to support disbursements totaling \$19,829, paid out \$7,385 in program funds untimely, and lacked appropriate supervisory oversight of its cash management activities.

FINDING 1 – PRDE-Salinas failed to provide proper documentation to support expenditures totaling \$19,829.

We reviewed PRDE-Salinas' support for all 365 purchase transactions, totaling \$342,358, and their related disbursements, for our sample of 7 of 20 PRDE-Salinas schools.

¹ The Fiscal Components were responsible for performing the fiscal activities of the schools.

² PRDE-Salinas is one of nine districts that belong to the Caguas School Region.

³ Title I is authorized under the ESEA, as amended by the Improving America's Schools Act of 1994, Public Law 103-382, and the No Child Left Behind Act of 2001, Public Law 107-110.

We found 12 transactions, totaling \$19,829, for which required documentation was not available. The missing documentation included either purchase requisitions, receiving reports, invoices, or cancelled checks. As a result, we determined that \$19,829 of expenditures was unsupported. A detail of the missing documentation is included as **Attachment A** to the report.

According to 34 C.F.R. § 80.20(a), “Fiscal control and accounting procedures of the State . . . 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.”

Pursuant to 34 C.F.R. § 80.20(b)(6), accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

PRDE-Salinas lacked an adequate record-keeping system to effectively account for Federal funds. The lack of available records is a problem that leaves funds awarded at risk of mismanagement and misuse.

Recommendations:

We recommend that the Assistant Secretary for Elementary and Secondary Education instruct PRDE-Salinas to:

- 1.1 Submit the required missing documentation to account for the Federal funds disbursed, or return the \$19,829 in unsupported expenditures to ED; and
- 1.2 Establish an effective record-keeping system to provide an appropriate audit trail of Federal funds.

PRDE Comments

PRDE reviewed the files at PRDE-Salinas and found most of the documents requested. PRDE provided supporting documentation for \$17,120 of the \$37,701 disbursements questioned in the draft report. In addition, PRDE included a copy of a check made to the Puerto Rico Treasury Department totaling \$752, as evidence of the reimbursement of funds received for two purchase orders that were cancelled.

OIG Response

We reviewed documentation submitted by PRDE to support disbursements made totaling \$17,872 (\$17,120 + \$752), and determined that the documentation accounted for the Federal funds disbursed. As a result, we decreased the questioned costs to \$19,829 (\$37,701 - \$17,872).

FINDING 2 – PRDE-Salinas paid out \$7,385 in program funds untimely.

We reviewed \$342,358 in Title I, non-salary funds received by 7 of 20 schools in PRDE-Salinas and found that \$7,385 was disbursed untimely. The \$342,358 represented the universe of Title I, non-salary funds PRDE-Salinas requested from the CSA for our sample of 7 of 20 District schools for the grant period, July 1, 2003, through June 30, 2004.

Of the \$7,385 PRDE-Salinas disbursed untimely, \$4,535 represented payments made as a corrective action measure in February 2006, after the OIG auditor submitted to the Payment Officers a list of unexpended Title I funds. This happened because PRDE-Salinas did not have a structured cash management system to effectively manage the receipt and ultimate disbursement of ED funds.

According to PRDE's "Guide of Fiscal Procedures," after purchases have been made or services have been received, the Payment Officers must submit to the CSA a "Petition of Funds," detailed by purchase order number, vendor's name, invoice number, and expense account to disburse the funds. After the funds have been deposited in the schools' bank accounts, the Payment Officers should make the appropriate disbursements.

Pursuant to 34 C.F.R. § 76.702, a State and its sub-grantees must use fiscal control and fund accounting procedures that ensure proper disbursement and accounting for Federal funds.

The regulations at 31 C.F.R. § 205.15(a), establish that a State will incur an interest liability to the Federal Government if Federal funds are in a State account prior to the day the State pays out funds for program purposes. A State interest liability will accrue from the day Federal funds are credited to the State account to the day the State pays out the Federal funds for program purposes.

Failure to properly account for and disburse grant funds could place the funds at risk of being misused and adversely affect PRDE-Salinas' ability to properly administer ED programs. In addition, PRDE-Salinas incurred an interest liability to ED.

Recommendations:

We recommend that the Assistant Secretary for Elementary and Secondary Education instruct PRDE-Salinas to:

- 2.1 Return to ED the interest accrued between the time PRDE-Salinas received \$7,385 in Title I funds, and the time the funds were paid out for program purposes; and
- 2.2 Establish a structured cash management system to ensure that ED funds are properly accounted for and disbursed timely.

PRDE Comments

Regarding questioned costs of \$2,850 included in the draft report, PRDE asserted that it disbursed the funds, and provided supporting documentation. The funds were transferred between August 2004 and April 2005; and paid out in August 2005 and April 2006. PRDE calculated the accrued interest, which amounted to \$88. PRDE also calculated interest of \$154 accrued for untimely payments of \$4,535 included in the draft report.

OIG Response

We reviewed documentation submitted by PRDE to support the disbursements made for \$2,850 and determined that the documentation accounted for the Federal funds disbursed. As a result, we removed the \$2,850 in questioned costs. PRDE must return to Ed the accrued interest resulting from the untimely disbursement of the \$7,385 in Title I funds.

FINDING 3 – PRDE-Salinas lacked appropriate supervisory oversight of its cash management activities.

According to the Fiscal Component officials interviewed, the Regional Supervisor⁴ did not exert a constant and effective supervision over fiscal activities at PRDE-Salinas. Some Fiscal Component officials stated that the Regional Supervisor only visited them a few times during the year, and did not review any type of documentation. Other Fiscal Component officials stated that the Supervisor did not visit them at all. The only direct supervision they stated they had, came from the Director of the school where their office was located, who was responsible for approving their time and attendance. They also stated that they had basically no communication with personnel from the Caguas School Region.

According to 34 C.F.R. § 80.40(a), “Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.”

PRDE lacked internal controls to properly supervise and monitor cash management practices at the district level. Failure to supervise and monitor cash management practices leaves ED funds vulnerable to misuse.

Recommendation:

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

⁴ The Caguas School Region was responsible for supervising the Fiscal Components of PRDE-Salinas.

- 3.1 Establish internal controls to ensure that all the Fiscal Components receive proper and constant supervision and monitoring.

PRDE Comments

PRDE concurred with the finding and recommendation and will implement the following corrective actions:

- The Executive or Auxiliary Director will visit the Fiscal Components of the District at least four times during the year to review the accuracy of accounting records, timeliness of disbursements, and cash management, and prepare a report with the results of the visit. Any finding or deficiency should then be corrected by the fiscal component; and
- PRDE will develop a guide of Supervision Procedures to be used by the Supervisor during the visits.

OIG Response

PRDE's corrective actions described in its response may be considered by ED's Assistant Secretary for Elementary and Secondary Education as part of the audit resolution process. If fully implemented, the corrective actions should help PRDE improve its current procedures to ensure that Title I funds are spent in accordance with Federal requirements.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether PRDE-Salinas properly administered Title I, non-salary funds in accordance with grant requirements, and Federal laws and regulations. Our review covered the grant period, July 1, 2003, through June 30, 2004.

To accomplish the audit objective, we evaluated the fiscal procedures and practices followed by PRDE-Salinas to administer Federal funds. We also reviewed data obtained from the PRDE's CSA, and the Fiscal Components of the district. We interviewed the CSA Director, the Director of PRDE's Finance Department, the Salinas District Superintendent, School Directors, and the Fiscal Components of the district.

We reviewed the Puerto Rico Law that created the Community Schools System, PRDE's Guide of Fiscal Procedures, PRDE's Single Audit Report for the year ended June 30, 2003, and various audit reports from the Puerto Rico Comptroller's Office.

As part of our audit procedures, we obtained from the CSA, a list of all the ED non-salary funds PRDE-Salinas requested for the grant period, July 1, 2003, through June 30, 2004,

and segregated Title I from non-Title I funds. The list included all the 20 schools of PRDE-Salinas, detailed by school code. We identified the Purchasing and Payment Officers assigned to each school and judgmentally selected for review the seven schools where the combinations of Purchasing/Payment officers appeared first on the list.⁵

The matrix shown below identifies the selection criteria used. The numbers in **bold** identify the schools selected).

Matrix of the Criteria Used to Select the Schools Reviewed

| | | Purchasing Officers | | | |
|------------------|-----|----------------------------|------------------------|-----------------------|-----------|
| | | (1) | (2) | (3) | (4) |
| Payment Officers | (1) | 1, 3, 8, 12, 14, 16 | 5 | 4, 7 | |
| | (2) | 19 | 2, 6, 9, 13, 17 | 10, 11, 15, 20 | |
| | (3) | | | | 18 |

We reviewed 365 purchase transactions totaling \$342,358, representing the universe of Title I, non-salary funds PRDE-Salinas requested from the CSA for the seven selected schools, to determine whether the funds were spent in accordance with ED grant requirements, and Federal laws and regulations.

We conducted our fieldwork at the Fiscal Components' office, located at the PRDE-Salinas' Santiago R. Palmer School, and the CSA.

To achieve our audit objective, we relied, in part, on computer-processed data related to Title I, non-salary funds that we obtained from the CSA. To test the reliability and completeness of the data, we compared the CSA data with source records obtained from PRDE-Salinas. Based upon this test, we concluded that the data was complete and sufficiently reliable to be used in meeting the audit's objective.

Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

⁵ There were four Purchasing Officers and three Payment Officers assigned to the 20 schools of PRDE-Salinas.

ADMINISTRATIVE MATTERS

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

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:

Dr. Henry L. Johnson
Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
FOB 6, Room 3W315
400 Maryland Avenue SW,
Washington DC, 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/

Daniel P. Schultz
Regional Inspector General for Audit

Attachments

Attachment A

Detail of Missing Documentation

| School ID | Purchase Order Number | Amount | Missing Documentation |
|------------------|------------------------------|-----------------|---|
| 52753 | 2004-012 | \$169 | Purchase Requisition |
| 52753 | 2004-017 | 2,237 | Purchase Requisition |
| 52753 | 2004-030 | 272 | Purchase Requisition |
| 52753 | 2004-064 | 240 | Receiving Report, Invoice, Cancelled Check |
| 52795 | 2004-011 | 6,560 | Purchase Requisition |
| 52795 | 2004-017 | 60 | Purchase Requisition |
| 52795 | 2004-030 | 2,166 | Receiving Report, Invoice, Cancelled Check |
| 52795 | 2004-307 | 5,495 | Purchase Requisition |
| 52795 | 2004-234 | 350 | Receiving Report, Invoice, Cancelled Check |
| 52795 | 2004-292 | 1,045 | Receiving Report, Invoice, Cancelled Check |
| 52795 | 2004-293 | 736 | Receiving Report, Invoice, Cancelled Check |
| 52795 | 2004-295 | 499 | Receiving Report, Invoice, Cancelled Check |
| Total | | \$19,829 | |

Attachment B



Commonwealth of Puerto Rico
DEPARTMENT OF EDUCATION

OFFICE OF FEDERAL AFFAIRS

June 15, 2006

Mr. Daniel Schultz
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
32 Old Slip, 26th Floor
New York, NY 10005

Dear Mr. Schultz:

This letter is in response to the Preliminary Audit Report entitled: **Puerto Rico Department of Education, Salinas School District's Administration of Title I Funds, (ED-OIG/A02F0017)**. We have thoroughly reviewed the findings and recommendations contained in the preliminary report, in order to take the necessary actions to ensure the compliance with federal laws and regulations.

Finding #1

Amount of questioned costs: \$37,701

PRDE-Salinas failed to provide proper documentation to support expenditures totaling \$37,701.

Management Response:

The Preliminary Audit Report stated that missing documentation included either purchase requisitions, receiving reports, invoices or cancelled checks. PRDE revised the files at PRDE-Salinas Schools District and found most of the documents requested by your office.

- We are including a summary table, which details the documentation provided. (See Attachment A.)
- In addition, we are providing a table (See Attachment B) that details the missing documentation.

Mr. Daniel Schultz
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- Also, for purchase orders that make reference to enclosure no. 39 (PO's 2004-30, 2004-234, 2004-292, 2004-293, and 2004-295), we provided copy of the bank statement that shows the check number 01446 for the amount expended of \$4,796.70. We requested the copy of the cancelled check to the bank and will send it to OIG as soon as we receive it.

Finding #2

Amount of questioned costs: \$2,850 plus applicable interest

PRDE-Salinas did not disburse \$2,850 in Title I funds received and paid out \$4,535 in program funds untimely.

Management Response:

Regarding the questioned costs of \$2,850, PRDE did disburse and spend the funds. The funds were transferred between April and August of 2005, and paid out in April of 2006. We calculated the interest accrued between the drawdown of funds and when the actual expenditure occurred.

- We are providing supporting documentation of the expenditures for the amount of \$2,850 that was paid in April 2006. (See enclosures 1-4 and 8-10.)
- Also, we are including a table with the calculation of the accrued interest. (See Attachment C.)

At the same time, we calculated the interest accrued for expenditures of \$4,535 that were paid out untimely. (See Attachment C.)

- We are including supporting documentation of the expenditures for the amount of \$4,535 that was paid in February 2006. (See enclosures 5-7 and 11-14.)

Finding #3

Amount of questioned costs: None

PRDE-Salinas lacked appropriate supervisory oversight of its cash management activities.

Management Response:

We concurred with the finding and the following actions will be implemented in order to avoid this finding in the future.

- The Executive Director or Auxiliary Director will schedule a quarterly plan of visits that will allow the fiscal component of the correspondent district to receive



Mr. Daniel Schultz
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at least four monitoring visits during the year. These monitoring visits will cover the review of the financial aspects of the fiscal components such as accounting records accuracy, timeliness of disbursements, and cash management.

- We will develop a guide of Supervision Procedures to be used by the Supervisor in the visits. This guide will be part of the Guide of Fiscal Procedures and Monitory.
- The Supervisor will prepare a report with the visit results, which will be sent to the Finance Division and the Monitory Division. Any finding or deficiency should be corrected by the fiscal component and the Executive Director or Auxiliary Director will verify the corrections or actions taken to resolve the situation.

The PRDE is constantly working on taking the necessary steps to make sure that we comply with all the federal laws, regulations and requirements for each program. We are committed to provide our children an education of academic excellence and high standards.

Sincerely yours,



Mariemma López
Director