



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES
Atlanta Audit Region

February 20, 2013

Control Number
ED-OIG/A04M0014

Hon. Alejandro García Padilla
Governor of Puerto Rico
Office of the Governor
P.O. Box 9020082
San Juan, Puerto Rico 00902-0082

Hon. Rafael Román Meléndez
Secretary
Puerto Rico Department of Education
P.O. Box 190759
San Juan, Puerto Rico 00919-1759

Dear Hon. García Padilla and Hon. Román Meléndez:

As part of a nationwide U.S. Department of Education (Department) Office of Inspector General (OIG) review of final expenditures under the American Recovery and Reinvestment Act of 2009 (Recovery Act), we reviewed Recovery Act expenditures at the Puerto Rico Department of Education (PRDE). The purpose of the nationwide audit was to determine whether selected local educational agencies obligated and spent final Recovery Act funding on reasonable, allocable, and allowable activities in accordance with applicable Federal requirements. The OIG plans to issue an audit report to the Department to present the results of the nationwide audit. The purpose of this final audit report, "Puerto Rico: Final Recovery Act Expenditures Supplemental Report," is to separately address internal control weaknesses at PRDE so that PRDE can take appropriate corrective action.

Our review covered January 1 through December 31, 2011, and Recovery Act expenditures for the State Fiscal Stabilization Fund, Education Stabilization Fund (ESF); Title I Part A of the Elementary and Secondary Education Act (Title I); and Part B of the Individuals with Disabilities Education Act (IDEA) grant programs.

BACKGROUND

The Department awarded \$529.7 million in ESF funds to the Office of the Governor of Puerto Rico (Governor's Office) and the Governor's Office identified and distributed the funds among four subrecipients, including three public institutions of higher education¹ and PRDE. PRDE received \$404.2 million, while the three public institutions of higher education received the remaining \$125.5 million. The Department also awarded PRDE about \$386.4 million in Title I funds and \$109.1 million in IDEA funds.

Across the three grants, PRDE received awards totaling \$899.8 million, as shown in Table 1. The grant obligation period for Recovery Act ESF and IDEA ended September 30, 2011. For Recovery Act Title I funds, PRDE received a waiver extending the grant obligation period to September 30, 2012, and the liquidation period to December 29, 2012.

Table 1: Recovery Act Grant Award Amounts for PRDE

Recovery Act Grant	PRDE
ESF	\$404,245,489
Title I	386,407,681
IDEA	109,098,472
Total	\$899,751,642

Source: Grant information provided by PRDE and the Governor's Office.

Our audit covered expenditures from January 1, 2011 to December 31, 2011.

AUDIT RESULTS

PRDE generally obligated and spent Recovery Act ESF, Title I, and IDEA funds in accordance with applicable laws, regulations, guidance, and program requirements. However, we found that \$3.5 million in computer equipment was not used as intended because the required software had not been installed. In addition, PRDE overpaid \$7,000 of its Title I Recovery Act funds for professional services not rendered by the University of Puerto Rico (UPR). Further, we identified control weaknesses in PRDE's procurement process; specifically, PRDE did not follow proper procurement procedures when using Recovery Act funds to purchase equipment totaling more than \$3.4 million. In addition, as of September 30, 2012, PRDE had a remaining balance of \$35.3 million that had yet to be drawn down from the Department, representing more than 9 percent of its \$386.4 million Title I allocation. PRDE received a waiver to extend the Title I grant obligation period to September 30, 2012, and the liquidation period to December 29, 2012. However, as discussed in the Other Matters section of this report, this significant remaining balance raises concerns about PRDE's ability to liquidate its remaining funds on allowable costs that were obligated before the end of the grant period.

¹ University of Puerto Rico, Conservatory of Music of Puerto Rico, and the School of Plastic Arts of Puerto Rico.

In response to the draft report, PRDE stated that it carefully reviewed the specific documentation, policies, and procedures related to the findings and recommendations included in the report and outlined a corrective action plan to address our recommendations. In addition, PRDE provided evidence that it corrected Finding No. 2 related to an overpayment of \$7,000 of Title I funds to the UPR. As a result of PRDE's corrective actions, no further action is necessary for Finding No. 2. PRDE's comments are summarized after the recommendations section of each finding. The full text of PRDE's comments is included as an Enclosure to the report.

FINDING NO. 1 – Computer Equipment Not Used as Intended

PRDE's Technology and Curriculum Unit staff developed the Educational Touch Project (the project) for 49 schools that demonstrated superior performance on the Puerto Rican Academic Achievement Tests.² The project was intended to help teachers and students develop and integrate technological skills into the educational process for the core subjects of English, Spanish, mathematics, and science. As part of the project's work plan,³ on September 30, 2011, PRDE acquired 6,125 tablet computers at a cost of \$568 each for a total of \$3.5 million in Title I funds to be used in the 49 participating schools. However, as of December 5, 2012, more than a year after acquiring the tablet computers, the teachers and students had not been able to use the tablet computers for the intended purpose because the required software had not been installed.

We visited 3 of the 49 participating schools to conduct a physical inventory of the tablet computers and other computer equipment⁴ purchased as part of the project and to determine whether the schools were using the equipment in accordance with the intended purpose. During our site visits, we found that except for the tablet computers, the schools were using the majority of the equipment received in accordance with the project's work plan. The three schools⁵ we visited received 125 tablet computers each, and according to the school directors and teachers interviewed, most of the tablet computers were not being used as intended because the required software had not been installed. Specifically, at the Diego Vázquez Elementary school, none of the tablet computers were being used. Adrián Medina and José Julián Acosta schools were using about 50 and 26 tablet computers, respectively. However, they were using other software that had been installed and not the software required by the work plan.

According to 34 C.F.R. § 80.32(b) and (c), a State must use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures, and other grantees and subgrantees must use the equipment in the program or project for which it was acquired as long as needed, whether or not the project continues to be supported by Federal funds.

In addition, Article 16, Section F of Regulation 11 of the Puerto Rico Department of Treasury establishes controls for the use and accountability of government fixed assets. Specifically, the

² Test designed to evaluate the student's academic achievement in the core subjects of English, Spanish, mathematics, and science.

³ The work plan established the purpose of the project, resources needed (personnel and equipment), and how the project would be implemented.

⁴ The equipment included 3D servers, interactive whiteboards, speakers, microphones, projectors, and tablet computers.

⁵ Diego Vázquez Elementary school located in Caguas, Adrián Medina school located in Humacao, and José Julián Acosta school located in Ponce.

regulation states that the head of an agency is responsible for the custody, care, protection, conservation, and proper use of all property under the agency's jurisdiction or possession.

Although PRDE developed a work plan to implement the project, PRDE's Technology and Curriculum Unit did not adequately coordinate with the Central Procurement Office (CPO) to purchase and install the required software before the tablet computers were delivered to the schools. The lack of coordination delayed implementation, and the teachers and students have not been able to use the tablet computers for the intended purpose in accordance with the project's work plan. According to the Director of PRDE's Technology and Curriculum, none of the tablet computers were being used for the intended purposes because the required software had not been installed. As of December 5, 2012, PRDE had not purchased the required software.

The extensive delays in implementing work plans adversely affected the desired outcome of developing and integrating technological skills into the educational process through professional development for teachers and the creation of educational technological environments that would promote academic gain. In addition, having invested \$3.5 million in tablet computers without an adequate implementation work plan could affect the useful life of the equipment and could result in Federal education funds being wasted if the equipment is not used as intended or not used at all.

Recommendations:

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education require PRDE to—

- 1.1 Conduct proper procurement procedures to acquire the required software needed for the tablet computers so that schools can use the tablet computers in accordance with the project's work plan.
- 1.2 Develop and implement proper project management procedures to ensure timely coordination between the purchase of software, equipment, and professional services needed to avoid extensive delays in implementing work plans.
- 1.3 Provide guidance to the schools on temporary alternative allowable uses of the tablet computers until they can be used in accordance with the project's work plan.

PRDE Comments

PRDE neither agreed nor disagreed with our finding, but it described corrective actions intended to address Recommendations 1.1 and 1.2. According to PRDE, it published a request for proposals and attempted to procure the software to be used with the tablet computers, but it was unable to do so before the September 30, 2012, deadline for obligating Title I Recovery Act funds. PRDE stated that it is in the process of identifying an alternate funding source to procure the software so that the tablet computers can be used in accordance with the project's work plan. PRDE added that it will update its procurement procedures to ensure that when both software and hardware are required to implement a project's work plan, the procurement of one will be contingent on the procurement of the other.

OIG Response

If implemented, PRDE's actions appear to address Recommendations 1.1 and 1.2. However, as of December 26, 2012, PRDE was still in the process of identifying an alternate funding source to acquire the required software so that teachers and students can use the tablet computers in accordance with the project's work plan. PRDE also had not updated its project management procedures to ensure timely coordination between the purchase of software, equipment, and professional services needed to avoid extensive delays in implementing work plans. In addition, PRDE did not address Recommendation 1.3.

FINDING NO. 2 – Overpayment for Professional Services

PRDE overpaid the UPR \$7,000 in Title I Recovery Act funds for professional services not rendered. According to the Professional Development and Comprehensive Program's work plan, PRDE contracted with the UPR to provide training to certify and recertify science and mathematics teachers in the subjects of chemistry, physics, biology, and mathematics.

During our review of one of the payments made to the UPR, we found that PRDE overpaid the UPR \$7,000. PRDE reviewed a UPR invoice for \$1,197,000 and found supporting documentation for only 88 of the 171 teachers the UPR claimed. The other 83 teachers PRDE was billed for were either not eligible or had been double billed. PRDE discovered the error, but paid the UPR \$623,000 for the 88 teachers instead of the \$616,000 that it should have paid. The error resulted in the UPR receiving an overpayment of \$7,000. We also reviewed other invoices for this contract to determine whether ineligible teachers had been billed or whether double billing occurred, but we did not find any additional instances of improper billing.

According to 34 C.F.R. § 76.702, States and subgrantees must use fiscal control and fund accounting procedures that ensure proper disbursement of and accounting for Federal funds. In addition, 34 C.F.R. § 80.20(b)(3) states that grantees and subgrantees must maintain effective control and accountability for all grant and subgrant cash.

Although PRDE's invoice review process was effective in identifying that UPR had not submitted sufficient documentation to support the amount billed, PRDE still made a payment without ensuring that its underlying calculations were correct. As a result, PRDE improperly paid \$7,000 for training.

Recommendation:

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education require PRDE to—

2.1 Return to the Department \$7,000 in overpayments made to the UPR.

PRDE Comments

PRDE agreed that it overpaid \$7,000 in Title I Recovery Act funds to the UPR for professional services rendered, and PRDE implemented a corrective action that addressed

Recommendation 2.1. Specifically, after we notified PRDE of the finding in the July 2012 exit conference, PRDE reviewed the transaction that resulted in the overpayment to the UPR and deducted the overpayment from a subsequent invoice, dated January 23, 2012.⁶ The subsequent invoice was for the training of 36 participants at a cost of \$7,000 each; PRDE adjusted the amount due, paying for 35 instead of the 36 participants to account for the prior overpayment of one participant.

OIG Response

PRDE provided sufficient evidence that it recovered the \$7,000 overpayment, which addresses Recommendation 2.1. PRDE provided a copy of the invoice from which the \$7,000 previously overpaid to the UPR was deducted, as well as the corresponding payment voucher showing the adjusted payment. As a result, no further corrective action is necessary to address Finding 2.

FINDING NO. 3 – PRDE Did Not Follow Proper Procurement Procedures

PRDE's CPO did not follow proper procurement procedures for five purchases, totaling more than \$3.4 million. Four of the purchases were funded with Title I Recovery Act funds and one purchase was funded with IDEA Recovery Act funds. Specifically, PRDE's CPO did not follow procurement policies and procedures for sole-source purchases and for purchases up to \$50,000. For the five purchases, PRDE's CPO awarded (1) three sole-source purchases to two vendors for \$3.4 million using Title I Recovery Act funds; (2) one purchase to another vendor for \$15,995 also using Title I Recovery Act funds; and (3) one purchase for \$33,000 to a vendor using IDEA Recovery Act funds. Although PRDE had procurement policies and procedures in place, a purchasing officer did not follow them and the supervisors did not enforce them. Specifically, supervisors approved purchases without having adequate documentation to support that the lowest and best offer was obtained. In September 2011, PRDE's former chief procurement officer⁷ and five additional PRDE officials, including the purchasing officer who processed the purchases mentioned in this finding, were indicted by a Federal grand jury on multiple charges related to their procurement activities.

Title I—Sole-Source Purchases

In August and September of 2011, as part of the project's work plan discussed in Finding No. 1, PRDE awarded three sole-source purchases to two vendors for \$3.4 million—one to García, Quiñones y Asociados, Inc., for \$1.2 million and two to Audio Visual Concepts, Inc., totaling \$2.2 million, as shown in Tables 2, 3, and 4 below. PRDE's CPO approved and awarded the three purchases without documenting PRDE's effort to search and exhaust all available resources, including all possible sources of information such as the Puerto Rico General Services Administration bidders' registry, commercial phonebooks, Internet Web sites, companies that supplied similar products, catalogs, and others. Article 13, Section 13.3.2.1.1 of PRDE's Procurement Policies and Procedures requires such effort to identify more than one supplier for all the goods and services to be procured and document justification for the selection of a vendor.

⁶ PRDE is behind in paying invoices; therefore, it paid the January 2012 invoice on September 6, 2012. Both the original overpayment and the subsequent deduction were on invoices for the same contract, contract number 2011-AF0225.

⁷ Resigned in December 2010.

Table 2: Summary of Sole-Source Purchase from García Quiñones y Asociados, Inc. (Purchase Order No. 176358; August 13, 2011)

Item Description	Quantity	Price Each	Amount
Portable 3D server	49	\$12,095	\$592,655
Customized computers	49	1,195	58,555
Locking wall brackets	49	225	11,025
Dust covers	49	85	4,165
3D stereoscopic science software	49	2,895	141,855
3D science software	49	2,950	144,550
3D stereoscopic mathematics software	49	2,450	120,050
Projectors and installation	98	1,775	173,950
Total			\$1,246,805

Table 3: Summary of Sole-Source Purchase from Audio Visual Concepts (Purchase Order No. 178196; August 30, 2011)

Item Description	Quantity	Price Each	Amount
Interactive whiteboard dual touch	245	\$5,800	\$1,421,000
Wireless adapters	245	580	142,100
Document camera	245	1,065	260,925
Single license for mathematics learning software	49	169	8,281
Total			\$1,832,306

Table 4: Summary of Sole-Source Purchase from Audio Visual Concepts (Purchase Order No. 179533; September 13, 2011)

Item Description	Quantity	Price Each	Amount
Audio systems with speakers and microphones	245	\$1,310	\$320,950
Total			\$320,950

According to 34 C.F.R. § 80.36(a), when a State is procuring property and services under a grant, it will follow the same policies and procedures it uses for procurements from its non-Federal funds.

Article 13, Section 13.2 of PRDE’s Procurement Policies and Procedures requires a formal competitive procurement process when the purchase request exceeds \$50,000, and Section 13.3.2 states that a sole-source purchase can be conducted only when PRDE determines that no other suppliers in the market can provide the goods and services needed. The policy further states that promoting a fair and just competition will promote the best quality products and services at the best possible price.

Title I—Copier Purchase

PRDE’s CPO did not maintain adequate supporting documentation to confirm that it followed proper procurement procedures for a purchase order awarded to PMB School Office Solution (PMB) in July 2011. The purchase was for a copier for \$15,995 funded with Title I Recovery Act funds. We found that PRDE’s CPO did not have the required documentation to support that

PRDE received and evaluated the three required quotes in accordance with PRDE's Procurement Policies and Procedures for purchases up to \$25,000.

Although we found evidence of four requests for quotes prepared and addressed to Express Office Products, Vázquez Office Equipment, National Copier, and PMB, the only quote available for us to review was the one received from PMB. The price according to PMB's quote did not match the amount PRDE paid for the copier. PMB's quote for the copier was \$8,692, but PRDE paid \$15,995, or \$7,303 more than the quoted price. We also reviewed the information in PRDE's financial accounting system to determine whether the CPO had documented the procurement process and the three required quotes in the system. We found that the quoted prices from just two vendors had been entered—\$16,895 for National Copier and \$15,995 for PMB. However, we did not find a quote for National Copier to support the \$16,895 entered in the system as the quoted price, and PMB's quote was \$7,303 less than the amount entered into the system. We also found that the purchase order was processed by one of the PRDE purchasing officers indicted by a Federal grand jury in September 2011 on charges of conspiracy to commit bribery concerning programs receiving Federal education funds.

IDEA—Wheel Chair and Inclusion Chairs Purchase

PRDE's CPO awarded a purchase order to Félix Merced Díaz, doing business as Materiales Didácticos in January 2011. However, PRDE could not provide adequate documentation to support that it followed proper procurement procedures. PRDE purchased a wheel chair and four inclusion chairs⁸ for \$33,000, funded with IDEA Recovery Act funds.⁹ During our review of the supporting documentation, we found that PRDE's CPO did not have the required documentation to support whether it received and evaluated the five required quotes in accordance with PRDE's Procurement Policies and Procedures for purchases from \$25,000 to \$50,000. The only support available consisted of the vendor's invoice for \$33,000.

We also reviewed the information on PRDE's financial accounting system to determine whether the procurement process and the five required quotes had been documented in the system. However, no other information related to quotes had been entered in the system to support that the purchase was made in accordance with PRDE's Procurement Policies and Procedures. We also found that the purchase order was processed by one of the PRDE purchasing officers indicted by a Federal grand jury in September 2011 on charges of conspiracy to commit bribery concerning programs receiving Federal education funds.

Article 13, Section 13.1 of PRDE's Procurement Policies and Procedures require three different informal procurement processes for purchases up to \$50,000. Section 13.1.3.1 requires that for informal procurement processes below \$6,000, a minimum of three quotes must be requested by phone, fax, or other means of communications available. Section 13.1.3.2 requires that for procurement processes between \$6,000 and \$25,000, a minimum of three quotes must be requested in writing and obtained either by mail, e-mail, fax, or any other form of written

⁸ Inclusion chairs provide adequate positioning support for children and adults who are insufficiently supported by standard classroom or desk chairs.

⁹ Of the total purchase amount, \$15,000 was used for a wheel chair and \$18,000 for four inclusion chairs at \$4,500 each.

communication. Section 13.1.3.3 requires that for procurement processes from \$25,000 to \$50,000, a minimum of five written quotes must be obtained.

Although PRDE had a procedure in place for sole-source purchases that required purchasing officers to document their effort to search and exhaust all available resources to identify more than one supplier for all the goods and services to be procured, the purchasing officer instead documented the process with notarized letters from García Quiñones y Asociados, Inc., and Audio Visual Concepts, Inc., affirming they were the only authorized distributors. This situation also occurred because the supervisor did not enforce the required procedures. The former CPO Director¹⁰ indicated that apparently there was a time in which purchasing officers were not following proper procurement policies and procedures due to the amount of purchases that needed to be processed. The former CPO Director also indicated that in October 2011, and due to audit findings related to the noncompliance with sole-source purchases, CPO began providing guidance and training to purchasing officers and personnel from other areas within PRDE to ensure personnel followed proper procurement policies and procedures, especially for sole-source purchases.

The former CPO Director indicated that aside from the information provided during the audit, CPO did not find any additional documentation to support that the purchasing officer followed PRDE's Procurement Policies and Procedures. As previously mentioned, in September 2011 PRDE's former chief procurement officer and five additional PRDE officials, including the purchasing officer that processed the purchases mentioned in this finding, were indicted by a Federal grand jury on multiple charges related to their procurement activities. This indictment and the findings contained in this report call into question all of the activities conducted by the six PRDE officials that were indicted. It also demonstrates that before the indictment, these officials created and operated in a very weak internal control environment that allowed them to circumvent established policies and procedures for personal gain.

Approving the purchases without conducting proper procurement procedures limited free and open competition and may have prevented PRDE from obtaining the best quality products at the best possible price. In addition, not conducting proper procurement procedures negatively affects the confidence and trust that taxpayers have in the government. We also noted that PRDE entered into a Compliance Agreement and a Memorandum of Agreement with the Department in 2004 and 2007, respectively. Both agreements included provisions to improve PRDE's procurement processes.

Recommendations:

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education, in coordination with the Assistant Secretary for the Office of Special Education and Rehabilitative Services, require PRDE to—

- 3.1 Return to the Department \$7,303 paid in excess to the vendor for the purchase of the copier.

¹⁰ Interim CPO Director from December 6, 2010, through July 31, 2012.

- 3.2 Establish and consistently implement adequate controls, including effective oversight and monitoring processes to ensure that proper procurement procedures are followed, in accordance with Federal and State laws and regulations and the applicable agreements with the Department.
- 3.3 Ensure that CPO employees are adequately trained to effectively perform their duties in accordance with PRDE's Procurement Policies and Procedures.
- 3.4 Review all of the purchases processed by the six officials indicted by a Federal grand jury in September 2011 to determine whether additional irregularities or fraudulent transactions occurred.

PRDE Comments

PRDE stated that it takes this finding very seriously and has established and fully implemented controls, including effective oversight and monitoring processes to ensure proper procurement procedures. According to PRDE, the performance of purchasing officers is monitored weekly and vendor evaluation reports are completed monthly. PRDE added that it revamped its procurement policies and procedures manual, which is pending finalization and approval. In addition, PRDE expressed its commitment to ensuring all CPO staff are adequately trained to effectively perform their duties in accordance with PRDE's Procurement Policies and Procedures. Finally, PRDE stated that it fully understands the gravity of the concern regarding the six officials indicted by a Federal grand jury in September 2011 and takes seriously the process of reviewing all purchases processed by these officials.

OIG Response

PRDE did not address Recommendation 3.1. If implemented, PRDE's actions appear to address Recommendation 3.2, 3.3, and 3.4. PRDE provided an organizational chart showing the CPO structure. However, PRDE did not submit further evidence documenting that it has taken the action described in its response.

OTHER MATTERS

In December 2011 PRDE received a waiver to extend the grant obligation period for its Title I funds until September 30, 2012, and the liquidation period to December 29, 2012. However, as of September 30, 2012, PRDE had a remaining balance of \$35.3 million, representing more than 9 percent of its \$386.4 million Title I allocation. This significant remaining balance raises concerns about PRDE's ability to liquidate its remaining funds on allowable costs that were obligated before the end of the grant period. Because of this, we suggest that the Assistant Secretary for the Office of Elementary and Secondary Education consider following up with PRDE during a future monitoring visit to determine whether the funds were obligated and liquidated appropriately.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of the nationwide audit of final Recovery Act expenditures was to determine whether selected local educational agencies (including PRDE covered by this report) obligated and spent final Recovery Act funding in accordance with applicable Federal requirements. The purpose of this supplemental report was to address our findings related to PRDE's questioned costs and internal control weaknesses so that PRDE can take appropriate corrective action.

Our review covered January 1 through December 31, 2011, and Recovery Act expenditures for three education-related grants:¹¹ (1) ESF, 84.394; (2) Title I, 84.389; and (3) IDEA, 84.391.

To determine whether Recovery Act expenditures were obligated and spent in accordance with applicable Federal requirements, we interviewed fiscal and program officials responsible for administering Recovery Act grants and the closeout processes. In addition, we interviewed teachers and school directors to determine whether goods and services funded with Recovery Act grants were received. We reviewed PRDE's policies and procedures to gain an understanding of their processes for procurement and grant closeout. We also reviewed and considered the results and findings of prior Single Audit reports, internal audit reports, as well as an OIG audit report on the Recovery Act.

For the findings contained in this report, we performed a limited assessment of PRDE's policies and procedures by judgmentally selecting samples of personnel and nonpersonnel expenditure transactions to determine whether the costs charged to Recovery Act grants complied with applicable Federal requirements. Using a risk-based approach, we selected nonpersonnel transactions for each grant (1) exceeding PRDE's threshold amounts; (2) representing high dollar amounts; (3) posting transactions the last month of the grant period; (4) including transactions under, but within 10 percent of the threshold amounts; and (5) containing a variety of costs based on the transaction's description. For nonpersonnel expenditures incurred from July 1, 2011, through December 31, 2011, we selected a total of 56 transactions totaling \$30.4 million from a universe of 4,198 transactions totaling \$41.4 million in ESF, Title I, and IDEA nonpersonnel expenditures during our audit period.

For personnel expenditures incurred from January 1, 2011, through September 30, 2011, we tabulated expenditures by month to find months of peak activity. To determine peak activity, we tabulated a total of 29,006 transactions totaling \$46.7 million in ESF, Title I, and IDEA personnel expenditures.

Because we used a risk-based model to judgmentally select samples of expenditure transactions, the results presented in this report cannot be projected to the universe of expenditures for the period covered by our testing.

We relied on computer-processed data contained in PRDE's financial accounting system for purposes of determining Recovery Act grant awards, revenue, expenditure, and refund amounts.

¹¹ We also provide the Catalog of Federal Domestic Assistance number assigned for grant-tracking purposes.

We reconciled PRDE's Recovery Act grant amounts with the amounts in PRDE's financial accounting system. We also reviewed the Fiscal Year 2010 financial and Single Audit reports for findings related to internal controls that might negatively affect data reliability. Further, we interviewed PRDE officials to gain an understanding of the accounting systems and verify grant amounts. Based on our reconciliation, the information identified in Single Audit reports, and the information obtained through interviews, we determined that the computer-processed data were sufficiently reliable for the purposes of this review.

We performed fieldwork at PRDE from March through July 2012, and held an exit meeting on July 19, 2012.

We conducted the audit work related to this supplemental report 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.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinion of the Office of Inspector General. Determinations of corrective actions to be taken, including the recovery of funds, will be made by the appropriate Department of Education officials in accordance with the General Education Provisions Act.

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:

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

Michael K. Yudin
Acting Assistant Secretary
Office of Special Education and Rehabilitative Services
U.S. Department of Education
400 Maryland Avenue, SW
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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

Enclosure

Enclosure: PRDE Comments

PRDE provided several attachments with its response. These attachments will be made available on request.



GOVERNMENT OF PUERTO RICO
DEPARTMENT OF EDUCATION

OFFICE OF FEDERAL AFFAIRS

December 26, 2012

Denise M. Wempe
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
61 Forsyth SW, Room 19T30
Atlanta, GA 30303
Denise.Wempe@ed.gov

**RE: Office of Inspector General Draft Audit Report—
Audit Control Number ED-OIG/A04M0014**

Dear Ms. Wempe:

Thank you for the opportunity to comment on the draft audit report, "*Puerto Rico: Final Recovery Act Expenditures Supplemental Report.*" The Puerto Rico Department of Education takes the issues raised in this draft audit report very seriously and has carefully reviewed the specific documentation, policies, and procedures at issue. Based on the results of our review to date, PRDE has outlined its corrective action plan for each recommendation.

If you would like to discuss these matters or we can be of further assistance, please feel free to contact me.

Sincerely,

Carmen Denton Fernandez
Director, Office of Federal Affairs

CC: Secretary Edward Moreno Alonso

Puerto Rico Department of Education
Response to Draft Audit Report: ED-OIG/A04M0014

Submitted to:
Denise M. Wempe
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The Puerto Rico Department of Education (PRDE) herein submits its response to the United States Department of Education's Office of the Inspector General Draft Audit Report (the "Draft") entitled *"Puerto Rico: Final Recovery Act Expenditures Supplemental Report,"* covering January 1 through December 31, 2011, and Recovery Act expenditures for the State Fiscal Stabilization Fund, Education Stabilization Fund (ESF); Title I Part A of the Elementary and Secondary Education Act (Title I); and Part B of the Individuals with Disabilities Education Act (IDEA) grant programs.

The Draft includes three findings against PRDE (Findings 1-3). Finding 1 alleges insufficient controls over the use, management and disposition of equipment; Finding 2 alleges insufficient controls over the disbursement process; and Finding 3 alleges ineffective monitoring of the procurement process.

PRDE takes allegations of this nature very seriously and has carefully reviewed the specific documentation, policies, and procedures at issue. Based on the results of our review to date, PRDE has outlined its corrective action plan for each recommendation. Each finding is discussed in turn.

Finding No. 1 – Computer Equipment Not Used as Intended

PRDE developed the Educational Touch Project to impact 49 schools that demonstrated superior performance on the Puerto Rican Academic Achievement Tests. A goal of the project was to introduce technology skills into the educational process of the core subjects of English, Spanish, Mathematics, and Science. As part of the project work plan, PRDE procured tablets for those

schools. PRDE did publish a request for proposals and attempted to procure the software to be used with the tablets, but was unable to do so prior to the September 30, 2012 deadline for obligating ARRA funds. PRDE, however, is in the process of identifying an alternate funding source to procure the software with the goal of being able to use the tablets in a manner aligned with the project work plan.

In order to ensure that all property purchased with Federal grant funds is used fully and in a manner that benefits the Federal grant program, PRDE will update its procurement procedures to ensure that when both software and hardware are required to implement a project work plan, one will only be procured contingent on the procurement of the other.

Finding No.2- Overpayment for Professional Services

PRDE agrees that it initially overpaid the University of Puerto Rico (UPR) \$7,000 in Title I Recovery Act funds for professional services rendered; however, PRDE identified that problem and has already implemented corrective action and remedied this finding. The professional services from which the questioned costs resulted were procured using Title I Recovery Act funds under contract number 2011-AF0225. The excess payment was made in connection with an invoice under that contract dated November 10, 2011. On January 23, 2012, PRDE signed a second UPR invoice for additional professional services under the same contract. In paying the January 23, 2012 invoice, PRDE adjusted the payment due to account for the prior excess payment. The invoice was for the training of 36 participants at a cost of \$7,000 each, but PRDE adjusted the amount due, paying for 35 instead of 36 participants to account for the prior overpayment by one participant. The January 23, 2012 invoice evidencing the \$7,000 deduction is provided as Attachment A. Additionally, the corresponding payment voucher, demonstrating that PRDE's payment under this invoice matched the adjusted amount is provided as Attachment B

PRDE remains committed to ensuring the proper disbursement of and accounting for Federal funds. As such, PRDE has procedures to ensure that payments are made only after proper documentation is obtained from contractors and supervisory review and approval is conducted.

Finding No. 3 – PRDE Did Not Follow Proper Procurement Procedures

PRDE takes this finding very seriously and has established and fully implemented controls, including effective oversight and monitoring processes, to ensure proper procurement procedures.

PRDE has fully established its Central Purchasing Office (CPO) within PRDE's organizational structure. The CPO is comprised of three divisions: 1) Division of Acquisitions; 2) Division of Contracts; 3) Quality Control. The CPO organizational chart is included as Attachment C.

The Division of Acquisitions is staffed with seven (7) Purchase Officers and a supervisor. The Purchase Officers are responsible for procuring the goods and services necessary to achieve the objectives of each Federal and local education program.

The Division of Contracts is staffed with two (2) employees and one supervisor. This Division reviews each contract to ensure that the expense is attributed to the correct account and that each contract is technically complete. This division then records the contract in SIFDE (PRDE's financial management system).

The Quality Control division is staffed with contracted positions, which include a supervisor and a staff of three (3). Quality Control monitors vendor performance and ensures that all purchased goods are delivered on time and in accordance with the purchase order.

PRDE is committed to ensuring that its CPO employees are adequately trained to effectively perform their duties in accordance with PRDE's Procurement Policies and Procedures. Purchase Officers' performances are monitored on a weekly basis and vendor evaluation reports are completed monthly. Additionally, the Purchase Officers attend SIFDE (PRDE's financial management system) training and all CPO staff receives training on PRDE's procurement policies and procedures. A complete revamping of the procurement policies and procedures manual was performed in order to ensure that all control aspects, including thoroughness of documentation are included. This procurement regulations manual has been presented for finalization and approval.

PRDE fully understands the gravity of the concern regarding the six officials indicted by a Federal Grand Jury in September 2011 and takes seriously the process of reviewing all purchases processed by these officials.