



Report: ED-OIG/A02-C0017

**U.S. DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL  
75 Park Place, 12th Floor  
New York, New York 10007**



JUN 10 2003

**Control Number  
ED-OIG/A02-C0017**

Honorable César A. Rey  
Secretary of Education  
Puerto Rico Department of Education  
Calle Teniente González, Esq. Calle Calaf – 12<sup>th</sup> Floor  
Urb. Tres Monjitas  
San Juan, Puerto Rico 00919

Dear Secretary Rey:

This is our Final Audit Report entitled *Puerto Rico Department of Education's Administration of Contracts with the League of United Latin American Citizens National Educational Service Center*. The purpose of our audit was to determine whether the Puerto Rico Department of Education (PRDE) properly administered various contracts awarded to the League of United Latin American Citizens (LULAC) National Educational Service Center (LNESEC) during years 1994-95 through 2000-01. Our objectives were to determine if PRDE ensured that the services described in the proposals and/or contracts were provided prior to payment of contractor's invoices and that the expenses claimed were in accordance with program requirements and specifications.

We determined that LNESEC generally provided the services described in the proposals and/or contracts prior to payment from PRDE. However, PRDE did not have required supporting documentation and paid unallowable costs for several contracts with LNESEC. PRDE did not concur with our findings. We made changes to the audit report based on PRDE's comments. We have summarized PRDE's comments after each finding, and have included PRDE's entire response as Attachment C.

### **BACKGROUND**

Founded in 1929, LULAC's objective is to assure that all Latin Americans receive a better education and job opportunities and at the same time fight for their civil rights. Since its inception, LULAC established education as a priority. LULAC established LNESEC in 1974 to work toward preventing school dropouts among students, ages 12 through 21. LNESEC is a 501 (c) 3 corporation. LNESEC operates throughout the United States and has a center in Bayamón, Puerto Rico that opened in 1994.

PRDE awarded nine contracts totaling \$1,477,492 to LNESE during school years 1994-95 through 2000-01. PRDE funded these contracts using Elementary and Secondary Education Act, as amended (ESEA), Title VI - Innovative Education Program Strategies (Title VI), formerly known as Chapter 2; Title IV - Safe and Drug Free Schools (Title IV); and Carl D. Perkins Applied Technology and Vocational Law, (Vocational Education) funding.<sup>1</sup> Seven of these contracts were intended to provide prevention services to high-risk public school students from the Bayamón and San Juan school regions. The other two contracts were intended to provide vocational training to single parents and housewives.

On May 29, 2002, the Deputy Secretary of the U.S. Department of Education designated PRDE as a “high risk” grantee under 34 C.F.R. § 80.12, making the agency subject to special conditions in all of the Federal education programs that it administers.

## **AUDIT RESULTS**

### **Finding No. 1- PRDE did not have required supporting documentation and paid for unallowable costs for several contracts with LNESE**

PRDE did not have all required supporting documentation for all nine contracts awarded to LNESE. As a result, PRDE paid LNESE \$5,689 in questioned costs and \$109,701 in unsupported costs.<sup>2</sup> This occurred because PRDE did not properly review LNESE’s invoices for adequate and reliable supporting documentation prior to payment.

According to 34 C.F.R. § 80.20 (a),<sup>3</sup> “. . . 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.” Further, 34 C.F.R § 80.20 (b) (2) states: “Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.”

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<sup>1</sup> For award period 1994-95, Chapter 2 funds were used and for 1995-96, Title VI funds were used. The remaining contracts used Title IV funds. In addition to the Title IV contracts for award years 1996-97 and 1997-98, LNESE also had contracts funded with Vocational Education funds.

<sup>2</sup> Questioned and unsupported costs include only those costs within the scope of audit recovery due to the statute of limitations. The period of recovery is 1997-98 forward. Attachment B illustrates questioned and unsupported costs that are unrecoverable. All nine contracts were included in our audit scope.

<sup>3</sup> Unless otherwise specified, all regulatory citations are to July 1, 1998 volume.

Additionally, 34 C.F.R. § 80.20 (b) (6) states: “Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subcontract award documents, etc.” OMB Circular No. A-122, Attachment B, paragraph 14 provides that costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals, lodging, rentals transportation, and gratuities are unallowable.

See **Attachment A** for details of the questioned and unsupported costs for 1997-98 through 2000-01 and **Attachment B** for 1994-95 through 1996-97. We identified \$109,701 in unsupported costs including telephone charges, accounting and audit services, and the entire 1997-98 Vocational Education contract. Neither PRDE nor LNEESC could provide invoices or supporting documentation for the Vocational Education contract payments. Questioned costs of \$5,689 include charges for improper payroll processing.

**Recommendations:**

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

- 1.1 Refund \$5,689 in questioned costs and \$109,701 in unsupported costs or provide supporting documentation of costs expended; and
- 1.2 Ensure all costs paid are allowable and all documentation supporting costs paid to contractors are maintained.

**PRDE’s response:**

PRDE did not concur with this finding or its recommendations. PRDE provided supporting documentation for telephone charges totaling \$300 that we considered to be unsupported. PRDE stated that all payments made by the PRDE for the Vocational Education contract were in accordance with the terms of the contract, which established that the performance report and LNEESC invoices were sufficient evidential matter to support the costs expended. For the improperly invoiced payroll processing charges, PRDE stated there was no supporting analysis or other detail proving that PRDE in fact paid twice for the same services. Therefore, PRDE stated that the finding was unsubstantiated and invalid, and no further action was deemed necessary. Additionally, PRDE contended that payments were made in accordance with program and contract requirements. Regarding the unsupported accounting services costs, PRDE contacted LULAC’s accountant who explained that accounting services payments were allocated through a formula basis to all LULAC subsidiaries. PRDE expects this information to become available during coming weeks and will submit it to the OIG as soon as it is received.

Finally, PRDE did not concur with the questioned costs for the high-cost restaurant because the invoice total included both the facilities used for the meeting and the

breakfast consumed during the meeting. PRDE claimed that this was standard practice whenever any restaurant, convention center, or other large group meeting facilities were used. However, PRDE plans to implement controls to require the costs for facilities and meals to be quoted and billed separately to avoid misunderstandings.

**OIG's reply:**

We reviewed PRDE's response, but did not change our findings or recommendations, except for the unsupported telephone charges and the questioned costs for breakfast. PRDE provided adequate supporting documentation for telephone charges totaling \$300. We also accepted PRDE's explanation for the breakfast costs totaling \$510 based on PRDE's plan to implement controls to require that the costs of facilities and meals be quoted and billed separately. This resolves questions regarding group meetings held at facilities that serve meals.

We still consider the \$66,653 total costs for the Vocational Education contract as unsupported. The contract required LNEESC to submit a progress report with each invoice, as well as a final report. These reports required the following information:

1. Number of program participants in each course,
2. Number and names of participants that finished each course,
3. Participants' proof of job placement, and
4. The project's achievements.

The contract also required LNEESC to submit documents showing the students' attendance at interviews, meetings, conferences, and other services. The attendance lists had to be certified by the institution's director and social worker. Although LNEESC submitted an achievement report with each invoice, the report did not include the number and names of the participants who finished each course or the participants' proof of job placement. Additionally, LNEESC did not submit documents showing the students' attendance at interviews, meetings, conferences, and other services.

Lastly, in relation to the payroll processing charges, we have evidence that PRDE paid twice for the same services, and we made this documentation available to PRDE's representatives.

**Finding No. 2 – PRDE improperly paid \$20,355 for the attendance of PRDE's employees at a convention**

Based on the review of the payments made to LNEESC, we found that PRDE improperly used Title VI, Innovative Education Program Strategies funds. Specifically, PRDE paid \$20,355 for 69 PRDE political appointees and employees to attend the LULAC 66<sup>th</sup> National Convention and Exposition held in San Juan, Puerto Rico in the summer of 1995. PRDE improperly used LNEESC's employer identification number to process the payment of the expenditure through the Puerto Rico Treasury Department. This occurred because PRDE did not institute controls and train personnel to ensure only expenses

allowed by Title VI law were authorized. As a result, these Title VI funds were not used for the direct benefit of students.

In accordance with the Innovative Education Program Strategies, Title VI, a State educational agency may use funds made available for State use under this Title only for:

- (1) State administration of programs . . . including - - (A) supervision of allocation of funds to local educational agencies; (B) planning, supervision, and processing of State funds; and (C) monitoring and evaluation of programs and activities . . . and (2) technical assistance and direct grants to local educational agencies and statewide education reform activities. . .

Furthermore, funds made available to local educational agencies under section 6102 of the Innovative Education Program Strategies, Title VI, shall be used for innovative assistance such as technology related to the implementation of school-based reform programs, programs to improve the higher order thinking skills of disadvantaged elementary and secondary school students, and to prevent students from dropping out of school.

The 66<sup>th</sup> LULAC convention included training sessions unrelated to elementary and secondary education. Training subjects included titles such as: *The census - its changing demographics - what the future holds for the 2000 workforce*; *Affirmative action debate - the potential impact on federal employment*; and *Access to capital for small business*. These, and the other topics, are not authorized activities as stated in the Title VI law. Due to statute limitations these costs are outside the scope of audit recovery.

**Recommendation:**

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

- 2.1 Institute controls and train personnel to ensure only expenditures allowed by Title VI law are authorized, and that the correct employer identification numbers are used for payments.

**PRDE's response:**

PRDE stated that the employees who attended the convention were teachers and other PRDE personnel working directly with program participants. Additionally, they claimed that topics discussed during the convention such as *Re-engineering partnership between federal agencies and Hispanic serving institutions*, *Reinventing challenges and job enhancements*, and *The role of equal employment opportunity commission* were related to LULAC's objectives which are to ensure that all Latin Americans receive better education and job opportunities, while fighting for their civil rights. PRDE has implemented controls to ensure funds are properly allocated to the correct budget contract

year. Specifically, PRDE established that account numbers must be included in the contract and that account numbers must be composed of the organization number and contract year.

**OIG's reply:**

We reviewed PRDE's response and although some of the topics could be related to LULAC's objectives, they are not related with LNESCS's primary goal of preventing school dropouts among young people between the ages of 12 and 21. The contract was between PRDE and LNESCS, and not between PRDE and LULAC. Also, PRDE's corrective action should ensure that the correct employer identification numbers are used for payment.

**Finding No. 3 - PRDE did not properly reimburse LNESCS**

PRDE failed to properly pay the last invoice for a 1997-98 Title IV contract. The invoice was for \$43,157, but PRDE only paid \$19,534, resulting in an unpaid balance due to LNESCS of \$23,623. This occurred because PRDE improperly paid LNESCS's last 1996-97 invoice with 1997-98 funds, even though 1996-97 funds were still available. However, the \$23,623 needs to be reduced because LNESCS did not have source documentation for \$20,000 in accounting and auditing fees, which LNESCS included in its final 1997-98 invoice. Since PRDE did not pay the \$20,000, LNESCS is due \$3,623 for its last submission of invoices for 1997-98.

According to 34 C.F.R. § 80.21 (g)(1): "Unless otherwise required by Federal statute, awarding agencies shall not withhold payments for proper charges incurred by grantees or subgrantees . . ." Further, 34 C.F.R. § 80.20 (b) (6) states: "Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subcontract award documents, etc."

**Recommendations:**

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

- 3.1 Reimburse LNESCS \$3,623 for the net amount due from LNESCS's last 1997-98 invoice; and
- 3.2 Institute controls to ensure funds are properly allocated to the correct budgeted contract year.

**PRDE's response:**

PRDE did not concur with either the finding or the recommendation. PRDE stated that the costs were not reimbursed because of lack of documentation and that the action of

reimbursing LNESc for this invoice would be illogical and contrary to sound administration because they may be required to refund PRDE for unsupported costs. PRDE has implemented controls by way of procedures manuals and monitoring guides to ensure that expenses claimed are in accordance with program requirements. PRDE stated that the controls mentioned in response to Finding 2 also ensure that funds are properly allocated to the correct budget year.

**OIG's reply:**

We reviewed PRDE's response, but our position remains unchanged. PRDE's claim that they did not pay invoices due to a lack of supporting documentation is not consistent with other invoices paid and with the documentary evidence. Rather, our evidence shows PRDE did not pay the invoice because PRDE improperly allocated expenses to the incorrect budget year. Lastly, we have accounted for the unsupported costs in our finding by reporting LNESc is due \$3,623, as opposed to the total invoice amount of \$23,623.

**OTHER MATTERS**

In a previous U.S. Department of Education Office of Inspector General audit report (ED-OIG/A01-90007), we reported that PRDE failed to follow the Cash Management Improvement Act, Zero Balance Accounting for the Governor's Safe and Drug Free School Program for the period 1998-99. Our finding reported that as of January 25, 2000, PRDE had not disbursed funds to eight institutions included in our testing. LNESc was not included in this test, however, we identified an outstanding balance of \$2,828 due to LNESc for the 1998-99 award year for these same funds. Per PRDE officials, the outstanding balance remains at the Puerto Rico Governmental Development Bank earning interest. PRDE must identify any additional outstanding balances, compute the interest owed to the U.S. Department of Education (ED) for these balances, and remit to ED the computed interest and the excess cash.

**PRDE's response:**

PRDE stated that Zero Balance Accounts do not accrue interest. PRDE also responded that they do not have any evidence of any outstanding account in the Puerto Rico Governmental Development Bank. PRDE would appreciate if we would make available evidence of any outstanding account.

**OIG's reply:**

We reviewed PRDE's response and our position remains unchanged. PRDE failed to follow the Cash Management Improvement Act, Zero Balance Accounting. As a result, the funds remained in the Puerto Rico Treasury Department account at the Puerto Rico Governmental Development Bank earning interest until PRDE processed invoices for payment. Furthermore, according to PRDE's response to Finding 2 of report ED-OIG/A01-90007, PRDE agreed to compute the interest owed to the Federal government for funds that earned interest at the Puerto Rico Governmental Development Bank.

Finally, we can provide evidence that PRDE requested the total amount of the contract, and an outstanding balance remains.

### **OBJECTIVES, SCOPE, AND METHODOLOGY**

The purpose of our audit was to determine whether PRDE properly administered various contracts awarded to LNESEC during school years 1994-95 through 2000-01. Our objectives were to determine if PRDE ensured that the services described in the proposals and/or contracts were provided prior to payment of contractor's invoices and that the expenses claimed were in accordance with program requirements and specifications.

We performed our fieldwork at PRDE's offices in Hato Rey, Puerto Rico, and LNESEC's offices in Bayamón, Puerto Rico, from July 9, 2002 through November 14, 2002, the date of our exit conference. Using the 1999-00 list of 49 schools LNESEC served in the two school districts, we randomly selected three schools from the Bayamón school region and two schools from the San Juan school region for site visits. In the Bayamón region, we made site visits to Juan Ramon Jimenez Intermediate School on September 25, 2002, Cacique Agueybana Intermediate School on September 26, 2002, and Jose S. Alegria High School on September 26, 2002. In the San Juan region, we made site visits to Cesareo Rosa Nieves Intermediate School on September 25, 2002 and to Vila Mayo High School on September 26, 2002.

To achieve the audit objectives, we interviewed officials from PRDE's Office of Federal Affairs, Payment Division, Vocational Education Office, and LNESEC. We also interviewed school counselors, and principals and obtained documentation from PRDE, LNESEC and Puerto Rico's Treasury Department. We reviewed the available documentation maintained by PRDE and LNESEC for \$1,477,492 in costs claimed for the nine contracts awarded to LNESEC. To meet our objectives we did not rely on computer processed data from PRDE, LNESEC, or ED.

We conducted the audit in accordance with generally accepted government auditing standards appropriate to the limited scope of the audit described above.

### **STATEMENT ON MANAGEMENT CONTROLS**

We did not review the management control structure of PRDE because we previously reviewed the management controls, policies, procedures, and practices applicable to PRDE's administration of contracts in our recent audits (ED-OIG/A01-90006, ED-OIG/A01-90007, ED-OIG/A01-A0004, ED-OIG/A02-B0012 and ED-OIG/A02-B0025). Based on previous knowledge, we determined the level of control risk, that is the risk that material errors, or irregularities, or illegal actions may occur, to be high.

## **ADMINISTRATIVE MATTERS**

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department official, who will consider them before taking final Departmental action on the audit:

Eugene Hickok  
Acting Assistant Secretary  
Office of Elementary and Secondary Education  
U.S. Department of Education  
Federal Building No. 6  
400 Maryland Ave., SW, Room 3W315  
Washington D.C. 20202

Office of Management and Budget Circular A-50 directs Federal agencies to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

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

In accordance with 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.

Sincerely,



Daniel P. Schultz  
Regional Inspector General  
for Audit

Attachment A

Puerto Rico Department of Education Summary of Questioned and Unsupported Costs						
						Notes
1997-98	\$250,000	\$250,000	\$250,000	\$ 0	\$ 0	
Voc Ed 1997-98	66,653	66,653	0	0	66,653	1
1998-99	250,000	247,172	219,172	4,000	24,000	2
1999-00	160,000	159,997	151,112	44	8,841	3
2000-01	160,000	156,732	144,880	1,645	10,207	4
<b>Totals</b>	<b><u>\$886,653</u></b>	<b><u>\$880,554</u></b>	<b><u>\$765,164</u></b>	<b><u>\$5,689</u></b>	<b><u>\$109,701</u></b>	

1. All claimed costs for this contract were unsupported. An Office of Federal Affairs' official stated that the Vocational Education contracts were processed at PRDE's Vocational Education Office, but officials from PRDE and LNESc were unable to provide us with the acceptable supporting documentation for costs.
2. Questioned costs were for improperly invoiced payroll processing charges claimed in previous invoices. Unsupported costs were for accounting services and for an annual external independent audit. The only source documentation for these unsupported costs was an invoice submitted on LNESc's letterhead.
3. Questioned costs were for parking and art materials expenses already claimed in a prior month. Unsupported costs were for accounting services. The only source documentation for these unsupported costs was an invoice submitted on LNESc's letterhead.
4. Questioned costs were for improperly invoiced payroll processing charges claimed in a previous invoice. LNESc did not submit supporting documentation for accounting services, audit fees, and disability benefits. The only source documentation for these unsupported costs was an invoice submitted on LNESc's letterhead.

**Attachment B**

<b>Puerto Rico Department of Education Summary of Questioned and Unsupported Costs Prior to the Recovery Period</b>						
						<b>Notes</b>
1994-95	\$113,768	\$112,947	\$ 69,310	\$ 3,063	\$ 40,574	1
1995-96	100,000	92,223	38,804	0	53,419	
1996-97	332,071	298,262	149,277	524	148,461	2
Voc Ed	45,000	45,000	0	0	45,000	3
<b>Totals</b>	<b><u>\$590,839</u></b>	<b><u>\$548,432</u></b>	<b><u>\$257,391</u></b>	<b><u>\$3,587</u></b>	<b><u>\$287,454</u></b>	

For purposes of this audit, the recovery period included 1997-98 costs forward. This attachment includes costs prior to the recovery period.

All unsupported costs represent costs that could not be traced to any invoices submitted by LNEC. LNEC did not have source documentation for these costs.

1. Questioned costs were for improperly invoiced items such as airfare, hotel, business cards, vertical blinds, a ribbon cutting ceremony, and an estimate (not an invoice) for a Career Day activity.
2. Questioned costs were for improperly invoiced items such as Christmas decorations, flower bouquets, and two vases.
3. All claimed costs for this contract were unsupported. An Office of Federal Affairs' official stated that the Vocational Education contracts were processed at PRDE's Vocational Education Office, but officials from PRDE and LNEC were unable to provide us with the supporting documentation for any of the costs.

Attachment C



**Commonwealth of Puerto Rico**  
DEPARTMENT OF EDUCATION

OFFICE OF FEDERAL AFFAIRS

April 28, 2003

Mr. Daniel P. Schultz  
Regional Inspector General for Audit  
U.S. Department of Education  
Office of Inspector General  
75 Park Place, Room 1207  
New York, NY 10007

Dear Mr. Schultz:

We hereby submit our responses to your Draft Audit Report dated March 28, 2003 on the audit of the Puerto Rico Department of Education's Administration of Contracts with the League of United Latin American Citizens National Educational Service Center, (Control Number ED-OIG/A02-C0017).

We are confident that upon reviewing our comments you will have additional meaningful information that should be taken into consideration before the final audit report is issued.

**AUDIT RESULTS**

**OIG's Finding No.1**

PRDE did not have required supporting documentation and paid for unallowable costs for several contracts with LNEC.

**OIG's Recommendations**

- Refund \$6,199 in questioned costs and \$110,001 in unsupported costs or provide supporting documentation of costs expended; and
- Ensure all costs paid are allowable and all documentation supporting costs paid to contractors are maintained

**PRDE's Comments**

See Attachments A and B

## **Attachment C**

Daniel P. Schultz

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### **OIG's Finding No.2**

PRDE improperly paid \$20,355 for the attendance of PRDE's employees at a convention.

### **OIG's Recommendations**

Institute controls and train personnel to ensure that only expenditures allowed by Title VI law are authorized, and that the correct employer identification numbers are used for payment.

### **PRDE's Comments:**

As stated in the OIG letter, LULAC's objectives are to ensure that all Latin Americans receive better education and job opportunities, while fighting for their civil rights. For this purpose PRDE employees need the most recent information regarding federal laws and regulations that could directly affect students. The employees who attended this convention were teachers and other PRDE personnel working directly with program participants. Therefore, PRDE understands that all related expenditures were authorized.

Other topics discussed during the convention that were not mentioned in the letter and that are indeed related to LULAC's objectives were:

- Re-engineering partnership between federal agencies and Hispanic serving institutions,
- Reinventing challenges and job enhancements,
- The role of the equal employment opportunity commission.

In addition, the PRDE is concerned about the definition of a political appointee ("empleados de confianza"). When the auditors were consulted about this, they explained to us that they refer to a political appointee as any person who holds a senior management position appointed directly by the Secretary during any particular administration. We would like to make it clear that this term does not have any negative implications or connotations.

The PRDE has implemented the following controls to ensure funds are properly allocated to the correct budget contract year:

- The PRDE established that account numbers must be included in the contract.
- The PRDE established that account numbers must be composed of the organization number and contract year.

### **OIG's Finding No.3**

PRDE failed to properly pay the last invoice for 1997-98 Title IV contract. LNEESC's is owed \$3,623 for its last submission of invoices for 1997-98.

Attachment C

Daniel P. Schultz

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**OIG's Recommendations**

- Reimburse LNEESC \$3,623 for the net amount due from LNEESC's last 1997-98 invoice; and
- Institute controls to ensure funds are properly allocated to the correct budgeted contract year.

**PRDE's Comments**

The PRDE do not concur with either the finding or the recommendation related to this point. PRDE controls established that program personnel need all supporting documentation to authorize the payment of costs expended. These costs were not reimbursed because of lack of documentation. In addition, the PRDE understands that the action of reimbursing LNEESC for this invoice would be illogical and contrary to sound administration because they may be required to refund PRDE for unsupported costs. Because of this PRDE does not concur with the OIG auditor recommendation to reimburse the \$3,623.

We would like to note that the PRDE has implemented controls by way of procedures manuals and monitoring guides to ensure that expenses claimed are in accordance with program requirements.

Furthermore, as stated under Finding 2, the PRDE also implemented the following controls to ensure funds are properly allocated to the correct budget contract year:

- The PRDE established that account numbers must be included in the contract.
- The PRDE established that account numbers must be composed of the organization number and contract year.

**OTHER MATTERS**

Concerning these points, it is important to note that Zero Balance Accounts do not accrue interest. In addition, we do not have any evidence concerning the PRDE holding any outstanding account in the GDB. However, if you have any such evidence, we would appreciate if you would make it available to us so we can clarify any doubts.

If you have any questions, please feel free to contact me at (787) 759-8910.

Sincerely,



Eileen Loiz, Esq.  
Office of Federal Affairs Director

Attachment C

Attachment A

PRDE Summary of Unsupported and Questioned Costs						
Award Period	Contract Amount	Amount Paid	Accepted Cost	Questioned Cost	Unsupported Cost	Notes
1997-98	\$250,000	\$250,000	\$249,700	\$0	\$300	1.1
VOC ED 1997-98	66,653	66,653	0	0	66,653	1.2
1998-99	250,000	247,172	219,172	4,000	24,000	1.3
1999-00	160,000	159,997	150,602	554	8,841	1.4
2000-01	160,000	156,732	144,880	1,645	10,207	1.3
<b>Totals</b>	<b>\$886,653</b>	<b>\$880,554</b>	<b>\$764,354</b>	<b>\$6,199</b>	<b>\$110,001</b>	

The PRDE does not concur with this finding or its recommendations.

- 1.1 Our representatives requested information from LULAC concerning telephone charges. LULAC's Executive Director provided us with copies of telephone bills and emphasized to us that the requested information had previously been submitted with their reimbursement request and was also provided to OIG auditors during their visit to LULAC's facilities. However, we include all documentation provided by LULAC. For a copy of the invoice see Attachment C.
- 1.2 The PRDE previously submitted this information to OIG auditors during their visit. All payments made by the PRDE were in accordance with the terms of the contract, which established that the performance report and LNESc invoices were sufficient evidential matter to support the costs expended. In addition, our representatives reviewed the OIG's audit work papers on April 23, 2003 and noted that this evidence was complete in their files. Accordingly, we do not understand why the amount was reported as "unsupported" when the information already included in your work papers provide adequate evidence that the payment was made pursuant to the contract requirements.
- 1.3 While reviewing the auditors' claim regarding a duplicate payment, there was no such supporting analysis or other detail proving that the PRDE in fact paid twice for the same services. Therefore, we believe that the finding is unsubstantiated and invalid, and no further action is deemed necessary from our part. The PRDE therefore understands that payments were made in accordance with program and contract requirements. With regards to the accounting services billed, our representatives requested information to LULAC national offices located in Washington, D.C., LULAC's accountant explained us that accounting services payments were allocated through a formula basis to all LULAC's subsidiaries and information requested is available outside of their premises in a file room. Due to the constricted time period the information is still not available, but the PRDE expects that it will

## Attachment C

become available during coming weeks and will be submitted to you as soon as received.

- 1.4 The PRDE does not concur with this questioned cost because the invoice total includes both the facilities used for the meeting and the breakfast consumed during said meeting. In fact, this is a standard practice whenever any restaurant, convention center or other large group meeting facilities are used. However, the PRDE will implement controls to require that the cost of the facilities and the cost of meals be quoted and billed separately to avoid misunderstandings. Further source documentation has been requested from LULAC and will be submitted to you as soon as received.

Attachment C

Attachment B

PRDE Summary of Unsupported and Questioned Costs						
Award Period	Contract Amount	Amount Paid	Accepted Cost	Questioned Cost	Unsupported Cost	Notes
1994-95	\$113,768	\$112,947	\$69,310	\$3,063	\$40,574	1.1
1995-96	100,000	92,223	38,804	0	53,419	1.1
1996-97	332,071	298,262	149,277	524	148,461	1.1
Voc ED	45,000	45,000	0	0	45,000	1.1
<b>Total</b>	<b>\$590,839</b>	<b>\$548,432</b>	<b>\$257,391</b>	<b>\$3,587</b>	<b>\$287,454</b>	

- 1.1 PRDE employees and representatives have additional information related to this table that is available upon request. However, priority was given to gathering the information related to the other findings due to the limited time frame.

Attachment C

22:41 From-LULAC MACEDO #29 BAYAMON PR +787 7866933 T-668 P.008/016 F-120

**PRTC** Puerto Rico Telephone Company  
**TELEFONICA** TELEPHONE COMPANY

CUENTA 785-8080 925  
 FECHA 19 ABR 1998

Attachment C

**AVISO**  
 ESTA FACTURA REFLEJA ATRASO PENDIENTE DE PAGO. ESTE DEBE PAGARSE, EN SU TOTALIDAD EN O ANTES DEL 18 DE MAYO DE 1998. DE NO RECIBIRSE EN ESA FECHA, SU SERVICIO SERA SUSPENDIDO. LA RECONEXION DEL MISMO CONLLEVA UN CARGO DE \$15.00 Y PUEDE REQUERIR UN DEPOSITO ADICIONAL. FECHA LIMITE NO APLICA A CLIENTES CON SERVICIOS SUSPENDIDOS PREVIAMENTE.

**CENTRO NACIONAL LULAC**  
 29 CALLE MACEDO  
 BAYAMON PR 00961-6338

**RESUMEN DE CARGOS CORRIENTES (DETALLADOS EN LAS PAGINAS SUBSIGUIENTES)**

A1. RENTA DE LINEA	162.00	G. USO DE INFORMACION	.60
A2. RENTA DE EQUIPO		H. OTROS CARGOS Y/O CREDITOS	
B. ACCESO LINEA IMPUESTO POR FCC	21.50	I. LARGA DISTANCIA INTRA-ISLA PRTC	12.49
C. SERVICIO MEDIDO	43.81	J. LARGA DISTANCIA OTROS	59.83
D. CARGOS DIRECTORIO		TOTAL CARGOS CORRIENTES	\$300.23
E. WATS		ATRASOS O CREDITOS	282.51
F. PACKET SWITCHING		TOTAL A PAGAR	\$582.74

**A. DETALLE DE RENTA DE LINEA Y EQUIPO 19 ABR - 18 MAY**

NUMERO DE TELEFONO	CODIGO	UNIDADES	DESCRIPCION DEL CODIGO DE SERVICIO	CARGO TOTAL
740-0935	1031	1	BUS MAIN LINE KEY TEL SYS	36.65
740-0935	3850	1	TELETECLA NEGOCIO	2.50
740-0935	9912	1	CARGO POR SERVICIO 9-1-1	1.00
785-8029	1011	1	TELEFONO PRIMARIO NEGOCIO	23.05
785-8029	3850	1	TELETECLA NEGOCIO	2.50
785-8029	9912	1	CARGO POR SERVICIO 9-1-1	1.00
785-8031	1038	1	ADD BUS MAIN LINE KEY TEL	36.65
785-8031	3800	1	TEL TOUCH SERV PBX TRUNK	3.75
785-8031	8102	1	TELEFONO NO EN GUIA	2.50
785-8031	9912	1	CARGO POR SERVICIO 9-1-1	1.00
785-8080	1031	1	BUS MAIN LINE KEY TEL SYS	36.65
785-8080	3800	1	TEL TOUCH SERV PBX TRUNK	3.75
785-8080	8530	1	GROUP HUNT FEA BUS MAIN	10.00
785-8080	9912	1	CARGO POR SERVICIO 9-1-1	1.00

**TOTAL SERVICIOS RENTADOS \$162.00**

**INFORMACION AL CLIENTE**  
 LA LEY 35 DEL 27 DE JUNIO DE 1986, PROVEE QUINCE (15) DIAS A PARTIR DE LA FECHA DE FRANQUEO PARA PAGAR U OBJETAR LA FACTURA Y PARA SOLICITAR UNA INVESTIGACION A LA COMPANIA SIN QUE SU SERVICIO QUEDA AFECTADO. EL ABONADO PODRA OBTENER INFORMACION ESCRITA Y ORIENTACION PERSONAL VISITANDO LA OFICINA COMERCIAL O COMUNICANDOSE CON SU REPRESENTANTE DE SERVICIO.

DESPRENDA AQUI Y DEVUELVA EL TALONARIO CON SU PAGO



**TALONARIO DE PAGO**

CKDEV 00

CUENTA	FECHA	TOTAL A PAGAR	CANTIDAD ENVIADA
785-8080-925	19 ABR 1998	\$582.74	300.23

- HAGA SU PAGO A NOMBRE DE PRTC
- ENVILO AL P.O. BOX 71401, SAN JUAN PR 00936-8501
- ANOTE NUMERO DE TELEFONO EN EL CHEQUE O GIRO
- TODO CHEQUE DEVUELTO TENDRA UN CARGO ADICIONAL DE \$10.00
- CLIENTES ACOGIDOS A PAGO DIRECTO EL TOTAL FACTURADO SERA DEBITADO 18 DIAS DESPUES DE LA FECHA DE FRANQUEO
- NO DOBLE ESTE TALONARIO NI ESCRIBA DEBAJO DE ESTA LINEA

**CENTRO NACIONAL LULAC**  
 29 CALLE MACEDO  
 BAYAMON PR 00961-6338

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