



U.S. Department of Education
Office of Inspector General

Puerto Rico Department of Education's Unallowable Use of Temporary Emergency Impact Aid for Displaced Students Program Funds for Payroll Activities

June 24, 2021
ED-OIG/F19GA0027

FLASH REPORT

NOTICE

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. The appropriate Department of Education officials will determine what corrective actions should be taken.

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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services

June 24, 2021

TO: Ian Rosenblum
Acting Assistant Secretary for the Office of Elementary and Secondary Education

Denise L. Carter
Acting Assistant Secretary/Chief Financial Officer, Office of Finance and Operations

FROM: Bryon S. Gordon /s/
Assistant Inspector General for Audit

SUBJECT: Final Flash Report, "Puerto Rico Department of Education's Unallowable Use of Temporary Emergency Impact Aid for Displaced Students Program Funds for Payroll Activities" Control Number ED-OIG/F19GA0027

Attached is the subject final flash report that appraises the U.S. Department of Education (Department) of the risk that the Puerto Rico Department of Education (Puerto Rico DOE) used Department program funds for payroll costs related to inactive employees from 2007 to 2020. We have provided an electronic copy to your audit liaison officer. We received your comments agreeing with the recommendations in our draft report.

U.S. Department of Education policy requires that you develop a final corrective action plan within 30 days of the issuance of this report. The corrective action plan should set forth the specific action items and targeted completion dates necessary to implement final corrective actions on the findings and recommendations contained in this final audit report. Corrective actions that your office proposes and implements will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after 6 months from the date of issuance.

We appreciate your cooperation during this review. If you have any questions, please contact Selina Boyd, Regional Inspector General for Audit at (404) 974-9424 or Selina.Boyd@ed.gov.

Attachment

Purpose

The purpose of this flash report is to apprise the U.S. Department of Education (Department) of the risk that the Puerto Rico Department of Education (Puerto Rico DOE) used Department program funds for payroll costs related to inactive employees¹ from 2007 to 2020. During an ongoing audit of the Puerto Rico DOE's administration of the Temporary Emergency Impact Aid for Displaced Students (Emergency Impact Aid) program,² it came to our attention that the Puerto Rico DOE identified nearly \$79.2 million in unallowable payroll payments made to 16,267 employees between 2007 and 2020.

What We Did

We conducted a limited review to determine whether any of the 16,267 employees the Puerto Rico DOE identified in an accounts receivable report were also included in a payroll expenditure report that identified employees whose payroll costs were charged to the Emergency Impact Aid program. Because this was a limited review, we did not verify the accuracy and completeness of the payroll expenditure report or the accounts receivable report the Puerto Rico DOE prepared and used to identify the payments made to these 16,267 inactive employees. However, we may conduct additional work if necessary.

What We Found

We found that the Puerto Rico DOE may have charged up to \$1.3 million in unallowable payroll costs to the Emergency Impact Aid program. Specifically, the Puerto Rico DOE charged January 2018 payroll costs to its Emergency Impact program grant for 539 employees who, according to the accounts receivable report, were not employed by the Puerto Rico DOE during the payroll accrual periods applicable to the January 2018 payments. We believe this occurred because the Puerto Rico DOE did not have adequate controls to ensure that only active employees receive payroll payments. On September 30, 2020, after becoming aware of the unallowable payroll payments made between 2007 and 2020 to inactive employees, the Financial Oversight and

¹ For reporting purposes, inactive employees are those who were not employed by the Puerto Rico DOE or not in compliance with time and attendance and leave policies during the payroll accrual period related to the payroll payment. Compliance with time and attendance and leave policies refers to employees who record their time and attendance and have accrued leave balances to cover absences.

² Office of Inspector General (OIG) audit of the Puerto Rico DOE's Data Reliability and Use of Emergency Impact Aid Program Funds, control number A19GA0003.

Management Board for Puerto Rico required the Puerto Rico DOE to implement internal controls to ensure that only active employees receive payroll payments. The Puerto Rico DOE reported that it implemented controls in February 2021, to ensure personnel comply with time and attendance policies. The Puerto Rico DOE also reported that it made modifications to its payroll and human resources systems that would allow payroll staff to identify active and inactive employees, immediately stop unallowable payments, and make the appropriate payroll deductions.

Questionable Payroll Payments

The Puerto Rico DOE originally made \$73.7 million in payroll payments to 27,772 employees using Puerto Rico DOE's State funds in January 2018. Then, on January 8, 2019, for each of the 27,772 employees, the Puerto Rico DOE charged at least a portion of each of their payments to the Emergency Impact Aid program, totaling \$69.1 million, to reimburse itself.³ However, the documentation supporting the reimbursement did not identify the amount from each employee's payment. As a result, we are unable to determine the exact amount reimbursed for each employee.

Based on our review of the payroll expenditure report identifying the 27,772 employees discussed above, and the accounts receivable report, we identified 539 employees⁴ who each had at least a portion of their January 2018 payroll payments charged to the Emergency Impact Aid program, even though they had already retired, resigned, passed away, transferred to other local government agencies, been laid off, or had their contracts expire before January 2018. As such, the Puerto Rico DOE could have wrongfully charged up to \$1.3 million in payroll payments to the Emergency Impact Aid program for the 539 employees.

According to Title 2 of the Code of Federal Regulations section 200.430, compensation for personal services includes all remuneration, paid currently, or accrued, for services

³ The Puerto Rico DOE's accounting records did not show the specific amount of payroll payments charged to the Emergency Impact Aid program for each of the 27,772 employees. However, the Puerto Rico DOE's Auxiliary Secretary of Federal Affairs, through its external consultants, explained that at least a portion of payroll payments for each of the 27,772 employees was charged to the grant. The Puerto Rico DOE provided a spreadsheet generated from its financial information system that included the names of the 27,772 employees and the original payroll amount charged to the Puerto Rico DOE's State funds for each of the employees. The spreadsheet's payroll payments totaled \$73.7 million instead of the \$69.1 million charged to the grant.

⁴ The January 2018 payroll payments made to the 539 employees totaled nearly \$1.3 million.

of employees rendered during the period of performance under the Federal award, including but not necessarily limited to wages and salaries.

Insufficient Internal Controls Over Payroll Payments

The \$79.2 million in unallowable payroll payments, including potentially \$1.3 million charged to Emergency Impact Aid program funds, may have occurred because the Puerto Rico DOE did not have adequate controls to ensure it made payroll payments only to active employees.

The Puerto Rico DOE's payroll is automatically generated and sent to the Puerto Rico Department of Treasury one month in advance of payment. Unless staff in the Puerto Rico DOE's Human Resources Office submits the required documentation to staff in the Puerto Rico DOE's Payroll Division to notify or certify that an employee (1) has stopped working for the agency, (2) did not record their time and attendance for the pay period, or (3) did not have accrued leave balances to cover absences, the employee's payroll payments will continue to be processed. The Puerto Rico DOE's Human Resources Office needs to send timely notifications to the Puerto Rico DOE's Payroll Division to ensure employees are removed from the payroll system or that appropriate payroll adjustments are made. According to the Director of the Puerto Rico DOE's Time, Attendance and Licenses Office,⁵ the payroll payments that were possibly made to inactive employees occurred because notifications relating to employees' lack of time and attendance records and personnel actions were not sent to the Puerto Rico DOE's Payroll Division.

According to the Operational Procedures Manual of the Puerto Rico DOE's Auxiliary Secretariat of Finance, the Payroll Division is to process all payroll payments, taking into consideration information received from the Human Resources Office about personnel actions, including changes in employment status and salary.

In addition, the lack of connectivity between the Puerto Rico DOE's payroll system and its human resources system did not allow the staff in the Payroll Division to identify active or inactive employees. This limited their ability to take immediate action to ensure payroll payments were only made to active employees.

Corrective Actions Taken

In response to the payroll issue, the Puerto Rico Financial Oversight and Management Board required the Puerto Rico DOE to implement internal controls over time and attendance processes and respective systems to ensure that only active employees and employees in compliance with time and attendance and leave policies receive payroll

⁵ Office responsible for administering the Puerto Rico DOE's time and attendance information system.

payments. According to the Executive Director of the Puerto Rico DOE's Human Resources Office, the controls the Puerto Rico DOE implemented require employees to electronically record their time and attendance. In addition, the Puerto Rico DOE recently made modifications to its payroll and human resources' systems to integrate the two systems. These modifications would allow payroll staff to identify active and inactive employees, immediately stop unallowable payments, and make the appropriate payroll deductions to employees who did not electronically record their time and attendance. The Executive Director of the Puerto Rico DOE's Human Resources Office stated that the controls were implemented during the second pay period of February 2021 and they allowed for semimonthly payroll deductions if time and attendance were not recorded. If properly implemented, these controls should mitigate the risk of making future unallowable payroll payments related to time and attendance issues, including inactive employees.

According to the Puerto Rico DOE's Finance Director, the Puerto Rico DOE had recovered only \$3.5 million of the \$79.2 million of payroll payments included in the accounts receivable report as of March 26, 2021. The recovery of the \$3.5 million was the result of courtesy collection letters sent to former employees and payroll deductions from active employees who were not in compliance with time and attendance policies. No funds have been recovered from the 539 employees who may have received unallowable payroll payments that were charged to the Emergency Impact Aid program. As of May 2021, the Puerto Rico DOE had not established or implemented a formal corrective action plan to recover the remainder of the unallowable payroll payments in the accounts receivable report. The Puerto Rico DOE's Finance Director stated that the accounts receivable report may have some inaccuracies, and the Puerto Rico DOE is still reviewing it to make the proper adjustments.

What We Recommend

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education, in conjunction with the Assistant Secretary/Chief Financial Officer for the Office of Finance and Operations—

- 1.1 Require the Puerto Rico DOE to demonstrate that it has implemented sufficient controls over its payroll system to ensure that Department program funds are safeguarded; and, if it cannot, impose specific conditions on all Department grants awarded, including disaster and pandemic relief grants prohibiting the use of grant funds for payroll without documentation to support that payments went to active employees.
- 1.2 Closely monitor the Puerto Rico DOE's implementation of internal controls over payroll included in its corrective action plan prepared in response to the new time and attendance controls required by the Puerto Rico Financial Oversight

and Management Board.

- 1.3 Require the Puerto Rico DOE to identify the amount of unallowable payroll costs charged to the Emergency Impact Aid program and other Department program funds and establish a plan to return those funds to the Department.

Department Comments

We provided a draft of this report to the Department for comment. The Department agreed with all three recommendations but suggested adding information to the finding to ensure clarity regarding recommendation 1.3. The Department stated that corrective actions have already been taken to address recommendations 1.1 and 1.2 as part of the fiscal year 2020 Departmental Specific Conditions it imposed on all grants awarded to the Puerto Rico DOE.

In response to recommendation 1.1, the Department stated that it required the Puerto Rico DOE to procure the services of a third-party fiduciary agent to perform financial management duties for all Department grant awards. The contract has been signed and the agent is in the process of establishing the structures and systems necessary to perform the financial management responsibilities required under the Departmental Specific Conditions, including payroll procedures that comply with applicable Federal requirements.

Regarding recommendation 1.2, the Department stated that it required the Puerto Rico DOE to develop a comprehensive corrective action plan to address fiscal deficiencies in the administration of Federal education grant funds and will also require the inclusion of corrective actions developed in response to recommendations made by the Puerto Rico Financial Oversight and Management Board.

The Department agreed with recommendation 1.3; however, it found the rationale supporting the claim that Puerto Rico DOE may have wrongly reimbursed itself \$1.3 million in unallowable payroll costs using Emergency Impact Aid program funds to be unclear and suggested adding information or removing the statement.

OIG Response

The actions the Department has already taken as well as its proposed actions, if implemented as described, are responsive to our recommendations.

We slightly modified the final flash report to address the Department's comments to recommendation 1.3. As stated in the report, in January 2018, the Puerto Rico DOE originally made \$73.7 million in payroll payments to 27,772 employees using Puerto Rico DOE's State funds. Then, on January 8, 2019, for each of the 27,772 employees, the Puerto Rico DOE charged at least a portion of each of their payments to the Emergency

Impact Aid program, totaling \$69.1 million, to reimburse itself. As explained in the report, because the documentation supporting the reimbursement did not specify the individual amount charged to the Emergency Impact Aid program for each of the 27,772 employees, we cannot determine the exact amount that was charged to the program for the 539 employees (who are part of the 27,772 employees) not employed by the Puerto Rico DOE during the payroll accrual periods applicable to the January 2018 payroll payments. We do know, however, that according to the payroll expenditure report, a total of \$1.3 million was originally charged to the Puerto Rico DOE's State funds in January 2018 for the 539 employees. Therefore, the Puerto Rico DOE could have wrongfully charged up to \$1.3 million of payroll costs to the Emergency Impact Aid program for the 539 employees.

Scope and Methodology

We assessed the Puerto Rico DOE's use of Emergency Impact Aid program funds and its payroll process, including payroll documentation for the month of January 2018. We also reviewed an accounts receivable report containing Puerto Rico DOE employees who received payroll payments after becoming inactive between 2007 and 2020.

To achieve our objective, we interviewed officials responsible for the administration of the Emergency Impact Aid program, payroll, and the implementation of corrective actions to address payroll issues. In addition, we reviewed the following:

- Federal and State laws, regulations, and guidance applicable to the Emergency Impact Aid program, including section 107 of the Hurricane Education Recovery Act; Bipartisan Budget Act of 2018; Department's 2018 Frequently Asked Questions for Emergency Impact Aid; Emergency Impact Aid Grant Award Notification; Section 8101 of the Elementary and Secondary Education Act of 1965 as amended by the Every Student Succeeds Act; Section 602 of the Individuals with Disabilities Education Act; Part 200, Subgrants D and E of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, (Title 2 of the Code of Federal Regulations); Section 443 of the General Education Provisions Act; Federal Register, Volume 83, No. 101, notice on deadline extensions for Emergency Impact Aid; and Specific Conditions the Department imposed on all Department grants awarded to the Puerto Rico DOE for fiscal year 2019.

- Puerto Rico DOE’s accounts receivables report prepared by the Auxiliary Secretariat of Finance containing Puerto Rico DOE employees who received payroll payments after becoming inactive between 2007 and 2020.⁶
- Puerto Rico DOE’s payroll expenditure report file containing January 2018 payroll expenditures charged to the Emergency Impact Aid program.

The conclusions drawn in this report are based on testimonial evidence and our review of the accounts receivable report and payroll expenditure report that were both explained in detail in this report. However, we may conduct additional work if necessary.

Use of Computer-Processed Data

The use of computer-processed data for our flash report was limited to (1) an accounts receivable report⁷ containing the Puerto Rico DOE employees who received unallowable payroll payments between 2007 and 2020 and (2) a payroll expenditure report⁸ containing the Puerto Rico DOE employees whose January 2018 payroll payments were charged to the Puerto Rico DOE’s Emergency Impact Aid program. We conducted a match between these two data sets to identify employees whose pay may have been improperly charged to the Federal Emergency Impact Aid program. We did not conduct additional testing to assess the reliability of either data set. Accordingly, any limitations from this analysis are explained in the report.

Compliance with Standards

We prepared this flash report in alignment with OIG’s quality control standards and the Council of Inspectors General for Integrity and Efficiency’s “Quality Standards for Federal Offices of Inspector General,” which require that we conduct our work with integrity, objectivity, and independence. We believe that the information obtained provides a reasonable basis for the conclusions and recommendations contained in this report.

⁶ The termination dates and related information were not included in the accounts receivable report that the Auxiliary Secretariat of Finance prepared. The Puerto Rico DOE’s Human Resources office added that information to the report.

⁷ The Director of the Collections Division created the accounts receivable report using unallowable payroll payment data identified by staff in the Payroll Division and provided to the Finance Director to record the amounts owed by each employee.

⁸ A programmer assigned to the Auxiliary Secretariat of Finance created the payroll expenditure report using payroll data from the Puerto Rico DOE’s financial information system.

Department Comments



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION

May 25, 2021

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Dear Ms. Boyd and Mr. Cummins,

Thank you for the opportunity to provide comments on the Office of the Inspector General's (OIG) draft flash report, *Puerto Rico Department of Education's (PRDE's) Unallowable Use of Temporary Emergency Impact Aid for Displaced Students Program Funds for Payroll Activities*. This document provides comments on behalf of the U.S. Department of Education (Department) Office of Elementary and Secondary Education, the Office of the General Counsel, and other Department offices that reviewed the report.

The Department concurs with the recommendations outlined in the draft report, but we have also identified areas where the report can be improved to ensure clarity. Additionally, consideration for including the actions taken by the Department or that the Department plans to take, as outlined below, will strengthen the report.

- The Department concurs with recommendation 1.1 and recognizes the risk associated with PRDE's lack of sufficient controls over its payroll system and the potential misuse and abuse of Department funds. To safeguard program funds, in fiscal year (FY) 2020 Departmental Specific Conditions, the Department required PRDE to procure the services of a third-party fiduciary agent (TPFA) to perform financial management duties for all Department grant awards to Puerto Rico and PRDE. PRDE has signed a contract with a TPFA, and the TPFA is in the process of establishing the structures and systems necessary to perform the financial management responsibilities required under the Departmental Specific Conditions. The TPFA's role encompasses responsibilities including, but not limited to, processing payments and disbursements, maintaining financial records, financial reporting, and instituting and applying procurement, inventory, and payroll procedures that comply with applicable Federal requirements. Specifically with respect to payroll costs, the TPFA is responsible for establishing and maintaining a process for tracking and reporting time and effort spent by all employees whose salaries are paid under Department grants, including distribution of time among different funding sources for split-time employees, and for properly allocating salary costs among Department grants, based on records that accurately and properly record the distribution of each employee's work on multiple cost objectives, the time the employee attends work, and, for those employees who work on a single cost objective, semiannual certifications. The TPFA's responsibilities regarding payroll costs align with Puerto Rico's and PRDE's responsibilities under the FY 2020 Departmental Specific Conditions, which are to establish and maintain an

effective and accurate process for tracking and reporting time and effort spent by all employees whose salaries are paid under Department grants, including, but not limited to, maintaining accurate and up-to-date employee staffing lists and notices of personnel actions, distributing time among different funding sources for split-time employees, and properly allocating salary costs among Department grants.

- The Department concurs with recommendation 1.2 and has taken the step in the FY 2020 Departmental Specific Conditions to additionally require PRDE to develop a Comprehensive Corrective Action Plan (CCAP) to address the fiscal deficiencies in the administration of Federal education grant funds. The Department will require PRDE to include the corrective actions developed in response to the recommendations issued by the Puerto Rico Financial Oversight and Management Board in the CCAP. Under the CCAP, PRDE is required to provide quarterly reports to the Department on their progress implementing all recommendations.
- The Department concurs with recommendation that PRDE review payroll costs charged to Department programs and return any funds charged for unallowable costs as outlined in recommendation 1.3. However, the Department finds the rationale supporting the claim that PRDE may have wrongly reimbursed itself \$1.3 million in unallowable payroll costs using Emergency Impact Aid program funds to be unclear. The report states that documentation provided by PRDE supporting these costs did not provide sufficient information for each of the 27,772 employees reviewed and, as a result, the OIG was unable to determine the exact amount reimbursed to the ineligible 539 employees that received payroll payments or which of the 539 employees, if any, received unallowable payments. We recommend that the OIG either: 1. Explain the broader issue identified through its audit and remove the Emergency Impact Aid specific \$1.3 million reimbursement in unallowable payroll costs reimbursed using Emergency Impact Aid program funds, or; 2. Ensure that the report makes clear the process undertaken and data reviewed to arrive at a definitive conclusion on the amount of Emergency Impact Aid program funds that PRDE used to reimburse unallowable payroll payments. The amount of unallowable costs is not confirmed given that, as stated in the report, there was insufficient information provided by PRDE for the auditors to determine the exact amount paid to ineligible employees.
- As a process matter, we request that the OIG provide us with the comments made by PRDE and allow the Department 10 business days to review and respond with any additional comments.

Thank you for your consideration of the Department's feedback. We look forward to our offices' continued collaboration to ensure Puerto Rico's effective and efficient use of Federal funds.

Sincerely,

Mark
Washington

Digitally signed by Mark
Washington
Date: 2021.05.25
22:06:39 -04'00'

Mark Washington
Deputy Assistant Secretary
Office of Elementary and Secondary Education