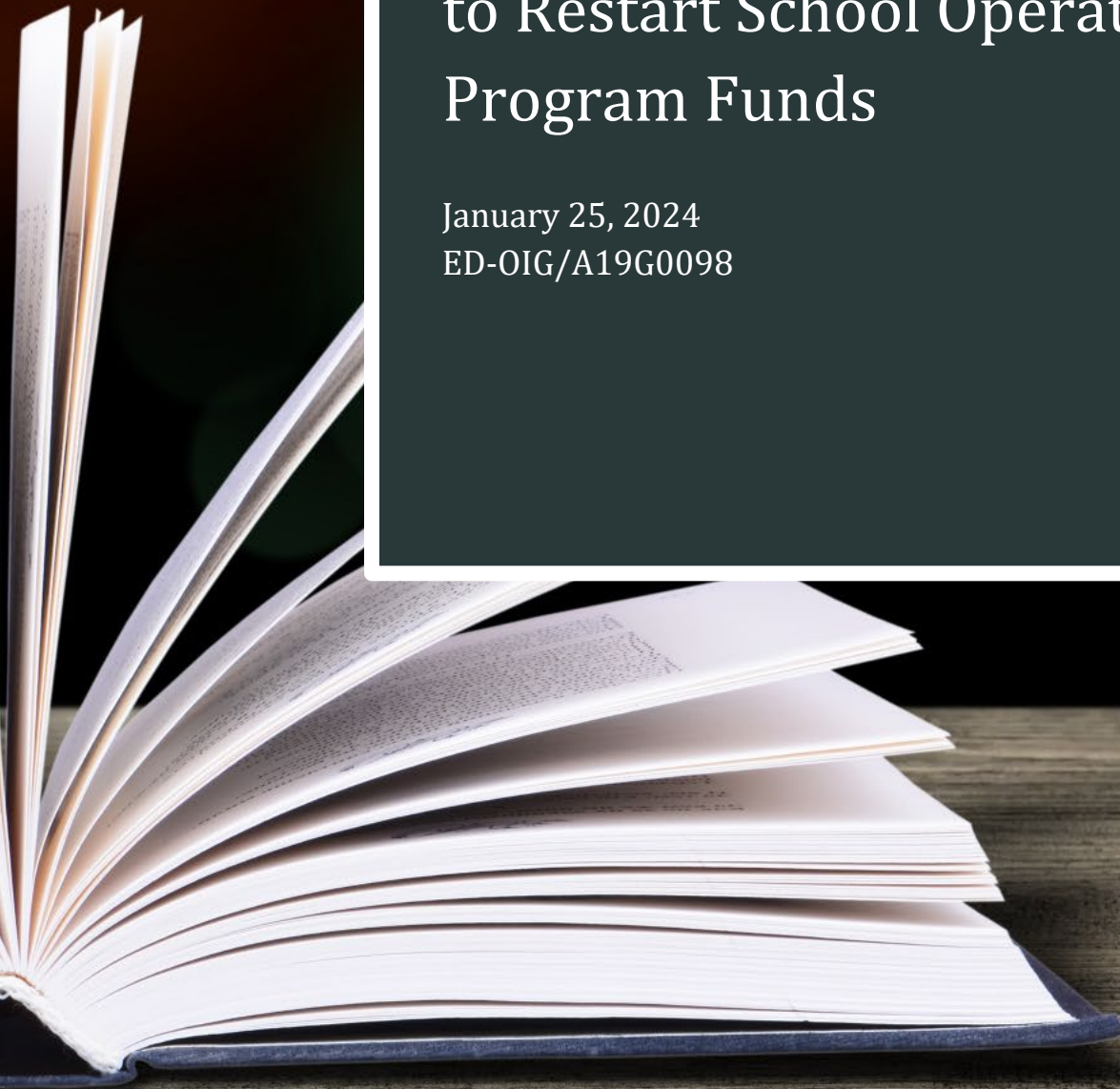




U.S. Department of Education  
Office of Inspector General

# Puerto Rico Department of Education's Use of Immediate Aid to Restart School Operations Program Funds

January 25, 2024  
ED-OIG/A19G0098



## 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

January 25, 2024

Yanira Raíces Vega  
Secretary of Education  
Puerto Rico Department of Education  
P.O. Box 190759

Dear Secretary Raíces Vega:

Enclosed is our final audit report, “Puerto Rico Department of Education’s Use of Immediate Aid to Restart School Operations Program Funds” Control Number ED-OIG/A19GA0098. This report incorporates the comments you provided in response to the draft report. The U.S. Department of Education’s policy is to expedite audit resolution by timely acting on findings and recommendations. Therefore, 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 Department of Education official, who will consider them before taking final Departmental action on this audit:

Adam Schott  
Deputy Assistant Secretary for Policy and Programs  
Delegated the Authority to Perform the Functions and Duties of the Assistant Secretary  
Office of Elementary and Secondary Education  
U.S. Department of Education  
400 Maryland Avenue, SW  
Washington, D.C. 20202

We appreciate your cooperation during this review. If you have any questions, please contact me at (404) 974-9424 or [Selina.Boyd@ed.gov](mailto:Selina.Boyd@ed.gov).

Sincerely,  
Selina Boyd /s/  
Regional Inspector General for Audit

Enclosure

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## Results in Brief

### What We Did

The objective of the audit was to determine whether the Puerto Rico Department of Education (Puerto Rico DOE) used Immediate Aid to Restart School Operations (Restart) program funds for allowable and intended purposes, from April 30, 2018, through August 31, 2022.

To accomplish our audit objective, we interviewed Puerto Rico DOE officials; reviewed Federal and State laws, regulations, and guidance relevant to our audit objective; and performed testing of a nonstatistical random sample of indirect cost charges and statistical random samples of payroll and nonpayroll payments charged to the Restart program to determine whether the expenses were for allowable and intended purposes. Additionally, we inspected a nonstatistical sample of technology devices (laptops, tablet computers, and storage and charging carts) purchased with Restart program funds to determine whether the technology devices were being used for allowable and intended purposes. Lastly, we judgmentally selected the Puerto Rico DOE's Restart Devices Initiative and Restart Wi-Fi initiative and performed limited testing to determine whether the Puerto Rico DOE complied with applicable procurement regulations when selecting contractors for the initiatives.

### What We Found

We found that the Puerto Rico DOE did not always use Restart program funds for allowable and intended purposes. Specifically, of the approximately \$8.6 million in indirect costs that the Puerto Rico DOE charged to its Restart program grant during our audit period, \$2.5 million of it was not allowable. The \$2.5 million in unallowable costs that the Puerto Rico DOE charged to the Restart program could have been used for allowable activities that would have assisted the Puerto Rico DOE in restarting school operations, reenrolling students, and reopening public and nonpublic elementary and secondary schools affected by the covered disaster.

We also found that the Puerto Rico DOE needs to improve its management of technology devices it purchased for students and teachers using Restart program funds. During our May 2023 physical inspections of a nonstatistical sample of 350 technology devices<sup>1</sup> acquired at a cost of \$161,669, we found that 215 student technology devices purchased for \$100,420 were in storage and had not been used as intended for nearly

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<sup>1</sup> The 350 technology devices consisted of 324 laptops, 18 tablet computers, and 8 storage and charging carts.

3 years (since receipt of the devices<sup>2</sup> in July 2020), and that the Puerto Rico DOE could not locate another 21 student and teacher technology devices purchased for \$9,237.<sup>3</sup> As a result of the Puerto Rico DOE's inadequate management of technology equipment, students and teachers who could have benefited from the use of this equipment did not.

Lastly, we found that the Puerto Rico DOE made unallowable payroll payments totaling \$6,000 to 3 teachers in our statistical random sample of 87 payroll payments. The three payments were for an initiative funded by Elementary and Secondary School Emergency Relief (ESSER) program funds that the Puerto Rico DOE received and therefore should have been charged to that program. Restart program funds used for unallowable payroll payments were not available for activities related to restarting operations, reopening schools, and reenrolling students. Because we used a stratified, dollar-weighted, random statistical sampling design for payroll payments, we are projecting that the Puerto Rico DOE paid \$41,882 in unallowable payroll payments using Restart program funds.<sup>4</sup>

We did not find any noncompliance in our testing related to the statistical random sample of nonpayroll payments and in our limited testing of the procurement processes related to the Restart Devices Initiative and the Restart Wi-Fi Initiative that we judgmentally selected for review.

## **What We Recommend**

We made several recommendations relating to the Puerto Rico DOE's unallowable use of Restart program funds, including to reallocate unallowable indirect costs it charged to the grant and ensure capitalization policies and procedures are followed. Regarding the Puerto Rico DOE's management of technology devices purchased with Restart program funds, we made recommendations for it to distribute the unused technology devices to students and teachers in need, locate missing technology devices, perform a technology device inventory, and ensure policies and procedures related to the management of technology devices are followed. Regarding the unallowable payroll payments made to three teachers for an ESSER program initiative, we recommend the Puerto Rico DOE determine the total amount of ESSER-related payroll payments incorrectly charged to

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<sup>2</sup> The 215 technology devices consisted of 209 laptops and 6 storage carts.

<sup>3</sup> The 21 technology devices consisted of 9 student laptops, 3 tablet computers, and 9 teacher laptops.

<sup>4</sup> We are 90 percent confident that the unallowable amount is between \$15,667 and \$111,824.

the Restart program and reallocate the unallowable amount back to the Restart program grant.

## **The Puerto Rico DOE's Comments and Our Response**

We provided a draft audit report to the Puerto Rico DOE for comment. We summarized the Puerto Rico DOE's comments that were relevant to the findings and recommendations at the end of each finding and provide the full text of the comments at the end of the report. Because of the voluminous attachments (attachments 1A through 3I) that the Puerto Rico DOE provided with its comments, we have not included them at the end of the report. Copies of the attachments are available upon request. The Puerto Rico DOE's comments in their entirety and the related attachments have been provided to the Department for audit resolution. Information protected under the Privacy Act of 1974 (5 U.S.C. § 552a) has been redacted in the Puerto Rico DOE's comments. (See [Puerto Rico DOE's Comments](#).)

The Puerto Rico DOE disagreed with Finding 1 and did not state whether it agreed or disagreed with the related recommendations. However, the Puerto Rico DOE described actions it plans to take in response to our recommendations, which are only partially responsive to our recommendation to reallocate unallowable indirect costs (Recommendation 1.1), and not responsive to our recommendation to ensure a purchasing officer assesses equipment purchases (Recommendation 1.2).

The Puerto Rico DOE neither agreed nor disagreed with Findings 2 and 3 and the related recommendations. However, it described the corrective actions it plans to take to address the recommendations. The Puerto Rico DOE's proposed corrective actions, if implemented as described, are responsive to recommendations 2.1, 2.2, 2.3, 2.4 and 3.1. Regarding Finding 3, in which we initially questioned four unsupported payroll payments, we asked the Puerto Rico DOE for supporting documentation for these payments several times throughout the audit. It was not until after we issued the draft report that the Puerto Rico DOE provided in its response to the draft report, documentation to support the payments as allowable Restart program payments or documentation to support that the payments should have been charged to a different program. Based on the information and additional documentation that the Puerto Rico DOE provided with its response regarding the four payroll payments, we revised Finding 3 to clarify that three of the four payments are unallowable because they were part of an initiative approved to be paid using ESSER program funds and not intended or approved to be paid using Restart program funds. For the fourth payment, the Puerto Rico DOE provided in its response, documentation to support the payment as an allowable Restart program payment; as such we removed this payment from Finding 3. However, given the extended period of time it took the Puerto Rico DOE to

locate and provide this documentation, we did not deem it to be readily available when needed. Based on the documentation that the Puerto Rico DOE provided, Recommendation 3.2 was no longer applicable; however, we replaced it with a new recommendation to ensure that the Puerto Rico DOE staff maintain and manage documents supporting activities funded with Federal education program grants so that records are readily available when needed.



# Introduction

## Background

On December 30, 2005, the Hurricane Education Recovery Act (HERA) authorized the Immediate Aid to Restart School Operations (Restart) program along with two other grant programs<sup>5</sup> to assist schools that were affected directly or indirectly by Hurricanes Katrina and Rita with reopening quickly and meeting the educational needs of displaced students. Under section 102 of the HERA, the Restart program was designed to provide funds to local educational agencies (LEA) and schools directly impacted by the disasters to help them restart operations, reopen, and reenroll students.

## 2018 Restart Program

In 2017, several areas of the United States and its territories were devastated by major disasters, including the California wildfires and Hurricanes Harvey, Irma, and Maria. The extraordinary conditions resulting from these disasters had an unprecedented impact on students who attended schools in the declared disaster areas of Alabama, California, Florida, Louisiana, Puerto Rico, Texas, and the U.S. Virgin Islands. These disasters destroyed some schools and forced a significant number of other schools to close for a period of time. On February 9, 2018, in response to the 2017 disasters, Congress authorized the Restart program in the Bipartisan Budget Act of 2018. The statute instructed the U.S. Department of Education (Department) to dispense aid for school year 2017–2018. This statute did not amend the HERA; rather, it provided that the statutory terms and conditions from the HERA were to be applied, with specified updates, for the California wildfires of 2017 and Hurricanes Harvey, Irma, and Maria. Congress appropriated a combined amount of about \$2.5 billion for both the Restart and Temporary Emergency Impact Aid for Displaced Students programs.<sup>6</sup>

## Payments and Authorized Uses of Restart Program Funds

The Department awarded about \$887.4 million in 2018 Restart program funds to three States, Puerto Rico, and the U.S. Virgin Islands. On April 30, 2018, the Department awarded the Puerto Rico Department of Education (Puerto Rico DOE) about

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<sup>5</sup> The HERA also authorized the Temporary Emergency Impact Aid for Displaced Students program and the Assistance for Homeless Youth program.

<sup>6</sup> The Temporary Emergency Impact Aid for Displaced Students program was designed to provide funds to LEAs that enrolled displaced students in their schools.

\$589.2 million in 2018 Restart program funds.<sup>7</sup> As of January 18, 2024, the Puerto Rico DOE had drawn down nearly \$504 million, or 86 percent of its award. On March 10, 2023, the Department approved for the Puerto Rico DOE an extension through September 30, 2024, to use its 2018 Restart program funds.

### **Puerto Rico DOE’s Administration of 2018 Restart Program Funds**

The Puerto Rico DOE was organized under Article IV, Section 6 of the Constitution of the Commonwealth of Puerto Rico and is responsible for the planning and administration of all public elementary, secondary, and some postsecondary education throughout Puerto Rico. The Secretary of Education is appointed by the Governor of the Commonwealth of Puerto Rico with the advice and consent of the Puerto Rico Senate. The Puerto Rico DOE is considered a State educational agency and LEA for purposes of administering Federal financial assistance programs.

The Puerto Rico DOE developed a funding plan<sup>8</sup> describing the initiatives and related estimated costs that it was planning to implement with Restart program funds. Some of the initiatives that the Puerto Rico DOE included in its funding plan for the use of the \$589.2 million in Restart program funds included (1) the acquisition of technology equipment devices for students (\$78.9 million) and teachers (\$30.1 million); (2) the purchase of textbooks and instructional materials (\$75.9 million); (3) the installation of a wireless (Wi-Fi) network at all public schools (\$43.9 million), including upgrades to network switches and infrastructure (\$55.4 million); (4) hiring psychologists and nurses (\$20.7 million); (5) the payment of performance bonuses to teaching staff (\$12 million); (6) school painting program (\$3 million); and (7) indirect costs (\$3.9 million).

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<sup>7</sup> On September 28, 2022, the Department awarded a supplemental 2018 Restart program grant of nearly \$48.6 million to the Puerto Rico DOE. However, the supplemental grant was outside the scope of this audit.

<sup>8</sup> Although the Restart grant award conditions did not require the Department’s approval of the Puerto Rico DOE’s funding plan, the Department reviewed the plan, and provided suggestions as needed to ensure compliance with the requirements of the Restart program. The funding plan was subject to revision; therefore, the expense categories and costs included were estimates and subject to change over the grant period.

## **Finding 1. The Puerto Rico DOE Charged Nearly \$2.5 Million in Unallowable Indirect Costs to the Restart Program**

The Puerto Rico DOE did not ensure that some of the expenses it charged to its Restart program were allowable. Specifically, of the approximately \$8.6 million in indirect costs that the Puerto Rico DOE charged to its Restart program during our audit period (April 30, 2018, through August 31, 2022), \$2.5 million of it was not allowable. The erroneous indirect cost charges were the result of the Puerto Rico DOE incorrectly including \$74.3 million of capitalizable technology equipment in the indirect cost allocation calculation.<sup>9</sup> The \$2.5 million in unallowable costs that the Puerto Rico DOE charged to the Restart program could have been used for allowable activities that would have assisted in restarting school operations, reenrolling students, and reopening public and nonpublic elementary and secondary schools affected by the covered disasters.

### **The Puerto Rico DOE’s Calculation of Indirect Costs for the Restart Program**

“Indirect costs represent the expenses of doing business that are not readily identified with a particular grant, contract, project function or activity, but are necessary for the general operation of the organization and the conduct of activities it performs.”<sup>10</sup> Indirect costs for an organization are grouped into one or more pools and then allocated to cost objectives (such as programs or activities). To calculate the amount of indirect costs that should be allocated to a cost objective, both an indirect cost rate, and for purposes of the Restart program, modified total direct cost (direct cost base), is needed. For the Puerto Rico DOE’s Restart program grant, the indirect cost rate that should be used to allocate indirect costs to the Restart program is included in written agreements between the Puerto Rico DOE (as grantee) and the Department and is updated periodically. The direct cost base needed for the indirect cost allocation calculation is defined in Title 2 Code of Federal Regulations (C.F.R.), section 200.1 as direct costs charged to the grant (Restart program), such as direct salaries and wages, applicable fringe benefits, materials and supplies, services, and travel. It excludes expenses such as

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<sup>9</sup> Technology equipment costs included in the indirect cost allocation calculation are for laptops and tablet computers.

<sup>10</sup> Definition obtained from the Department’s Office of Finance and Operations webpage at <https://www2.ed.gov/about/offices/list/ocfo/fipao/abouticg.html> (accessed on January 18, 2024).

equipment,<sup>11</sup> capital expenses, rental costs, scholarships, and fellowships. The indirect cost rate is multiplied by the direct cost base to come up with the amount of indirect costs that should be allocated and charged to the program.

Throughout our audit period, the Puerto Rico DOE calculated indirect costs 15 times and used 15 journal entries (one for each calculation), to charge approximately \$8.6 million in indirect costs to its Restart program grant. The first of the 15 times that it calculated the indirect cost charges for the program was in fiscal year (FY) 2019. In doing so, one of its contractors generated a report from the Puerto Rico DOE financial information system that identified all the expenses that had been charged to the Restart program as of the date of the report. Next, the contractor used a list of accounting codes<sup>12</sup> to identify the expenses in the report that needed to be marked as “Exclude,” so that they would not be included in the calculation of the direct cost base. To determine the expenses that should be marked as “Exclude,” the contractor used the applicable indirect cost rate agreements that the Puerto Rico DOE had with the Department and Federal regulations governing the expenses that are allowed and not allowed to be included in the direct cost base. Once the report was appropriately annotated, all the expenses not notated with the word “Exclude” were added together to come up with the direct cost base. The contractor then calculated the indirect cost allocation amount by multiplying the direct cost base by the agreed upon indirect cost rate. The resulting allocation amount was recorded as an indirect cost journal entry.

The Puerto Rico DOE followed similar procedures for the other 14 times that it calculated indirect cost allocations for the Restart program. The reports generated from the financial information system would include all expenses that had been charged to the Restart program from the beginning of the program up to the date each report was generated.

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<sup>11</sup> The regulations at 2 C.F.R. section 200.1 define equipment as tangible personal property (including information technology systems) having a useful life of more than 1 year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial statement purposes (\$500 for the Puerto Rico DOE), or \$5,000. Tangible personal property other than those described above, such as a computing device with an acquisition cost less than the amount described above, is defined as a supply.

<sup>12</sup> The list identified the accounting codes for capitalizable equipment with a unit cost of \$500 and higher as codes that should be excluded from the indirect cost calculation.

The only difference in the procedures followed is that once the applicable indirect cost rates were applied to the appropriate direct cost base,<sup>13</sup> the contractor would subtract from the resulting indirect cost allocation amount, the amount of indirect costs that had been charged to the Restart program in all previous journal entries (since indirect cost allocations are accumulated).

### **Errors in Determining the Direct Cost Base that Resulted in Excess Indirect Costs Being Charged to the Restart Program**

As stated before, the Puerto Rico DOE used 15 journal entries, totaling approximately \$8.6 million, to charge indirect costs to its Restart program grant during our audit period. We randomly selected and reviewed one of the journal entries to determine whether the expenses included in the direct cost base of the allocation calculation were allowable and whether the correct indirect cost rates were applied. For the \$784,650 indirect cost journal entry we selected (journal entry dated May 13, 2021), the Puerto Rico DOE provided a spreadsheet supporting the calculation. The spreadsheet contained over 55,401 line items of expenses, totaling nearly \$230 million, which comprised the direct cost base. We verified that the Puerto Rico DOE applied the applicable 3.0 or 4.1 percent indirect cost rates to the direct cost base (depending on the fiscal year of the individual expenses) to arrive at a total indirect cost allocation amount of \$7.3 million, and then subtracted from it the \$6.5 million in indirect costs that had previously been charged to the Restart program in the nine journal entries preceding the one we selected, to arrive at the \$784,650.

However, in reviewing the line items of expenses, we noticed an activity code of technology equipment for 15 of the expenses. Indirect cost agreements between the Puerto Rico DOE and the Department, and Federal regulations at 2 C.F.R section 200.1 governing indirect costs, set limitations for the inclusion of equipment expenses in indirect cost calculations. Specifically, the indirect cost regulations<sup>14</sup> in conjunction with the indirect cost agreements require capitalizable equipment with an acquisition cost

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<sup>13</sup> The Department periodically updates its indirect cost rate agreements with grantees to include new provisional or final rates for a particular fiscal year. As a result, grantees need to use the latest indirect cost rates as applicable to recalculate the accumulated indirect costs charged to a program for the applicable fiscal year.

<sup>14</sup> According to 2 C.F.R. section 200.1, equipment should be capitalized if it has a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial statement purposes (\$500 for the Puerto Rico DOE), or \$5,000.

exceeding a certain amount (\$500 for the Puerto Rico DOE) to be excluded from the direct cost base.

We reviewed the invoices and payment vouchers related to the 15 expenses with the technology equipment activity code (totaling \$94.8 million) and determined that they were for the purchase of (1) 159,330 laptops and tablet computers for students and teachers, (2) items and services needed to make the equipment usable for intended purposes<sup>15</sup> (including headsets and microphones, adapters, and configuration), and (3) training and project management. To determine whether the expenses related to the laptops and tablet computers, including the expenses needed to make the devices usable for intended purposes, were supposed to be capitalized and thereby excluded from the direct cost base, we had to obtain a complete universe of laptop and tablet computer-related expenses (not just those that were part of the 15 expenses we identified). As such, we gathered financial records from the Puerto Rico DOE's financial information system that identified all expenses charged to Puerto Rico DOE's Restart Devices Initiative (Activity code A004077).

We identified a total of \$90.5 million in expenses that we determined met the definition of acquisition costs<sup>16</sup> for the laptops and tablet computers that were charged to the Restart program from September 8, 2020, to March 4, 2021. Of the \$90.5 million, \$74.3 million was part of the 15 expenses we had already selected for review that were included in the direct cost base of the indirect cost allocation calculation, while the other \$16.2 million was not included in the direct cost base. See Tables 1 and 2.

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<sup>15</sup> According to the Puerto Rico DOE's "Need Assessment for Mobile Devices, Professional Development and Project Management," dated March 29, 2019, for the acquisition of the technology devices, the intended purpose for acquiring these laptops and tablet computers was to build a technology infrastructure to prepare for and mitigate the effects of another emergency in the future. The main purpose was to provide laptops and tablet computers to all teachers and students so that they can use it to access instructional material even when schools are closed due to an emergency.

<sup>16</sup> The regulations at 2 C.F.R section 200.1 define acquisition cost as the cost of the asset including the cost to ready the asset for its intended use. For equipment, this means the net invoice price of the equipment, including any modifications, attachments, accessories, or auxiliary apparatus necessary to make the equipment usable for its intended purpose; and for software, this includes installation costs if in accordance with the non-Federal entity's regular accounting practices.

**Table 1. \$74.3 Million in Acquisition Costs Related to Laptops and Tablet Computers  
(included in the direct cost base of the indirect cost allocation calculations)**

Item Category	Item Description	Quantity	Total Cost
Student Laptops	Laptops	111,330	\$48,985,200
Student Tablet Computers	Tablet Computers	18,000	\$8,550,000
Student Tablet Computers	Headset and Microphone	18,000	\$288,000
Teacher Laptops	Laptops	30,000	\$12,839,700
Teacher Laptops	Cover and Universal Serial Bus (USB) Dongle Adapter	30,000	\$1,595,700
Teacher Laptops	Image Configuration and Etching	30,000	\$2,074,200
-	<b>Total Cost</b>	-	<b>\$74,332,800<sup>17</sup></b>

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<sup>17</sup> There were also \$1.4 million in costs related to asset tagging, other configurations, and warranty service for the teacher laptops; however, these costs were not broken down by item in the contracts and invoices. Therefore, although asset tagging and configuration costs are considered acquisition costs per Federal definition, we did not include them in Table 1 or Table 5 of this report because we were unable to determine the portion of the \$1.4 million that was for asset tagging and configuration.

**Table 2. \$16.2 Million in Acquisition Costs Related to Laptops and Tablet Computers (not included in the direct cost base of the indirect cost allocation calculations)**

Item Category	Item Description	Quantity	Total Cost
Student Laptops	Image Configuration and Etching	111,330	\$5,566,500
Student Laptops	Data Security Software and Installation	111,330	\$6,818,962
Student Tablet Computers	Image Configuration and Etching <sup>18</sup>	18,000	\$900,000
Student Tablet Computers	Data Security Software and Installation	18,000	\$180,000
Teacher Laptops	Data Security Software and Installation	30,000	\$2,780,100
-	<b>Total Cost</b>	-	<b>\$16,245,562</b>

The costs of the items included in Tables 1 and 2 meet the Federal definition of acquisition costs at 2 C.F.R. 200.1, and should have been capitalized in accordance with Puerto Rico DOE’s “Procedure for the Control and Accounting of the Property of the Puerto Rico Department of Education,” (June 2006). For example, the two contracts awarded for the acquisition of the technology equipment devices required custom image configuration on all the devices to make them usable for the purpose for which they were acquired. The custom image configuration consisted of the installation of an operating system, Microsoft Office, Adobe Reader, and other software. The contracts also required the installation of data security software on all devices, which provided a secured connection between the devices and the Puerto Rico DOE’s network. The security software also allowed for the tracking of the devices and the management of inventory, including the ability to locate and remotely lock each equipment device to prevent data security breaches. (See Appendix B for a description of the items acquired.)

The Chief Information Officer, who is also the owner of the Restart Devices Initiative, confirmed that the additional costs we identified as acquisition costs (aside from the costs for the laptops and tablet computers themselves) are for items that were included

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<sup>18</sup> The Puerto Rico DOE used two different accounting codes to account for the same type of expense (image configuration and etching costs). As a result, when calculating indirect costs, the image configuration and etching costs related to teacher laptops were included in the direct cost base (see Table 1) and the image configuration and etching costs related to student laptops and tablet computers were not included (see Table 2).



in the Request for Proposals and in the contracts as necessary items to make the laptops and tablet computers usable for their intended purposes.

We performed additional analysis and determined that the total \$90.5 million in acquisition costs break down to a per unit acquisition cost for the laptops and tablet computers as follows: \$551 for each student laptop, \$551 for each student tablet computer, and nearly \$643 for each teacher laptop. Tables 3, 4, and 5 contain the details of the breakdown.

**Table 3. Acquisition Costs Related to Student Laptops**

Item Description	Quantity	Unit Cost	Total Cost	Cost Incorrectly Included in the Cost Base of the Indirect Cost Calculation
<b>Student Laptops</b>	111,330	\$440	\$48,985,200	\$48,985,200
Image Configuration and Etching	111,330	\$50	\$5,566,500	0
Data Security Software and Installation	111,330	\$61.25	\$6,818,962	0
<b>Total Capitalizable Value</b>	-	<b>\$551.25</b>	<b>\$61,370,662</b>	<b>\$48,985,200</b>

**Table 4. Acquisition Costs Related to Student Tablet Computers**

Item Description	Quantity	Unit Cost	Total Cost	Cost Incorrectly Included in the Cost Base of the Indirect Cost Calculation
<b>Student Tablet Computers</b>	18,000	\$475	\$8,550,000	\$8,550,000
Image Configuration and Etching	18,000	\$50	\$900,000	0
Data Security Software and Installation	18,000	\$10	\$180,000	0
Headset and Microphone	18,000	\$16	\$288,000	\$288,000
<b>Total Capitalizable Value</b>	-	<b>\$551</b>	<b>\$9,918,000</b>	<b>\$8,838,000</b>

**Table 5. Acquisition Costs Related to Teacher Laptops**

Item Description	Quantity	Unit Cost	Total Cost	Cost Incorrectly Included in the Cost Base of the Indirect Cost Calculation
<b>Teacher Laptops</b>	30,000	\$427.99	\$12,839,700	\$12,839,700
Cover and USB Dongle Adapter	30,000	\$53.19	\$1,595,700	\$1,595,700
Image Configuration and Etching	30,000	\$69.14	\$2,074,200	\$2,074,200
Data Security Software and Installation	30,000	\$92.67	\$2,780,100	0
<b>Total Capitalizable Value</b>	-	<b>\$642.99</b>	<b>\$19,289,700</b>	<b>\$16,509,600</b>

Because the acquisition cost per unit exceeded \$500 for the laptops and tablet computers, in accordance with the capitalization policy the Puerto Rico DOE was required to follow, the entire \$90.5 million in acquisition costs related to the laptops and tablet computers should have been capitalized, and none of it should have been included in the direct cost base used to calculate indirect costs that were charged to the Restart program. However, as our review revealed, \$74.3 million of the \$90.5 million in acquisition costs related to the laptops and tablet computers was incorrectly included in the direct cost base calculation applicable to the indirect cost journal entry we sampled. Additionally, because indirect costs accumulate and allocation calculations are updated each time an indirect cost journal entry is made, we reviewed supporting documentation for the last journal entry in our audit period that charged indirect costs to the Restart program (journal entry dated August 9, 2022) and we determined that the \$74.3 million of capitalizable equipment was still being included in the direct cost base of the indirect cost calculation. The 3.3 percent indirect cost rate that the Puerto Rico DOE applied to the \$74.3 million in that last indirect cost calculation revealed that a total of \$2.5 million in unallowable indirect costs had been charged to the Restart program during our audit period. Therefore, of the total \$8.6 million in indirect costs that the Puerto Rico DOE charged to the Restart program during our audit period, \$2.5 million of it was unallowable because the \$74.3 million of capitalizable equipment should not have been included in the direct cost base calculation.

In addition, guidelines for the implementation of generally accepted accounting principles issued by the Governmental Accounting Standards Board (GASB)<sup>19</sup> established in the GASB Implementation Guide No. 2015-1 (June 2015), answer to Question 7.9.8, as amended by Implementation Guide No. 2021-1 (May 2021), state that a government should capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant. The guide states that computers, classroom furniture, and library books are examples of asset types that may not meet a capitalization policy on an individual basis, yet could be significant collectively. This guide applies to the financial statements of all State and local governments. Therefore, the Puerto Rico DOE should have performed an assessment to determine whether the purchase of the student laptops, tablet computers, and teacher laptops at a cost of \$70.4 million<sup>20</sup> (12 percent of the \$589.2 million in Restart program funds that it was awarded) was significant enough to be capitalizable, but it did not perform such an assessment.

Other criteria applicable to the capitalization of equipment expenses that is not already presented in the finding include the following:<sup>21</sup>

- Section VIII.A of the “Procedure for the Control and Accounting of the Property of the Puerto Rico Department of Education” (June 2006), states that all personal and real estate property acquired by purchase, transfer, assignment, donation, or by other means whose unit cost is \$500 dollars or more and whose useful life is 2 years or more will be capitalized. The real value of the fixed asset

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<sup>19</sup> The GASB is an independent organization that establishes accounting and financial reporting standards for U.S. State and local governments that follow generally accepted accounting principles. The GASB standards are recognized as authoritative by State and local governments, state Boards of Accountancy, and the American Institute of Certified Public Accountants (AICPA). Source: <https://www.gasb.org/aboutgasb> (accessed on January 18, 2024).

<sup>20</sup> The \$70.4 million considers only the unit cost of the technology equipment devices. The acquisition cost of the 111,330 student laptops, 18,000 tablet computers and 30,000 teacher laptops is \$90.5 million.

<sup>21</sup> Criteria already presented in the finding includes 2 C.F.R. section 200.1; Puerto Rico DOE and the Department’s indirect cost rate agreements in effect from April 30, 2018, through August 31, 2022; and GASB Implementation Guide No. 2015-1 (June 2015) as amended by Implementation Guide No. 2021-1 (May 2021).

will be its sale price less discounts, plus transportation, delivery and installation costs and the payment of taxes.

- Article XII.A of the Puerto Rico Department of Treasury’s Regulation 11, “Basic Rules for the Control and Accounting of Fixed Assets” (December 2005), which is applicable to all Puerto Rico Government agencies and departments, states that the value of fixed asset consist of its sale price minus discounts, plus taxes, transportation, delivery, and installation costs. Article XIII.A further states that the Puerto Rico DOE’s Purchasing Officer should assess whether the equipment purchased needs to be capitalized before creating the purchase order in its financial information system.

### **The Puerto Rico DOE Did Not Ensure Compliance with Applicable Accounting Regulations for the Capitalization of Assets**

The Puerto Rico DOE charged unallowable indirect costs to the Restart program because it did not ensure that procurement office staff complied with article XIII.A of the Puerto Rico Department of Treasury’s Regulation 11, “Basic Rules for the Control and Accounting of Fixed Assets” (December 2005), which states that the Puerto Rico DOE’s Purchasing Officer should assess whether equipment purchases should be capitalized before creating the purchase order in its financial information system. The Procurement Director who oversees the purchasing officers of the Puerto Rico DOE’s Central Office of Purchases, Obligations, and Allocation of Funds (Procurement Office) stated that when the budget for a particular initiative is created in the Puerto Rico DOE’s financial system, it is the program coordinator who establishes the accounting codes, while the purchasing officers are only responsible for reviewing the accounting codes. She also stated that she feels that staff with an accounting background should be responsible for performing an analysis to determine whether equipment acquired by the Puerto Rico DOE should be capitalized. However, when we talked to the Restart Program Coordinator regarding his responsibility for assigning accounting codes, he explained that when creating a budget, he does not perform an analysis to determine whether the equipment to be acquired needs to be capitalized; rather, he just selects the accounting code that best describes the budgeted equipment expense.

We also talked to the Accounting Director, and in our initial conversation, she explained that when calculating the indirect costs, the equipment expenses identified with the “noncapitalizable equipment” accounting code were included in the direct cost base and the equipment expenses identified with the “capitalizable equipment” accounting code were excluded from the direct cost base. She said that in calculating the indirect costs, the Accounting Division did not perform an evaluation to determine whether any additional underlying or supplementary costs would have required the equipment to be

capitalized because doing so would have been too burdensome given the high volume of transactions handled daily.

In a subsequent meeting with the Accounting Director, Acting Finance Director and others, the Accounting Director stated that if an analysis was performed to determine whether the laptops and tablet computers acquired by the Puerto Rico DOE should have been capitalized, it would have been done between the Procurement Office staff and the Restart Program Coordinator. The Acting Finance Director also stated that it was the Procurement Office staff and the staff that manages the grant (that is, the Restart Program Coordinator) who were responsible for making this determination. Both the Director of the Procurement Office and the Restart Program Coordinator denied having any such responsibility.

Because the Puerto Rico DOE did not consider the entire acquisition cost of the laptops and tablet computers (which exceeded \$500 for each device), and only considered the unit cost of the laptops and tablet computers themselves (which was under the \$500 capitalization threshold), the Puerto Rico DOE classified the equipment and supplementary costs as noncapitalizable and incorrectly included them as part of the direct cost base used to calculate the amount of indirect costs to charge to the Restart program. As a result, the Puerto Rico DOE used \$2.5 million of Restart program funds on unallowable indirect costs, meaning that these funds were not available for use on other allowable activities that would have assisted in restarting school operations, reenrolling students, and reopening public and nonpublic elementary and secondary schools affected by the covered disasters.

## **Recommendations**

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

- 1.1 Reallocate the \$2.5 million in unallowable indirect costs charged to the Restart program grant.
- 1.2 Ensure that a purchasing officer assesses whether equipment purchases should be capitalized using the requirements established in 2 C.F.R. 200.1, the Department's indirect costs agreements, and Regulation 11 "Basic Rules for the Control and Accounting of Fixed Assets" (December 2005).

## **Puerto Rico DOE's Comments**

The Puerto Rico DOE disagreed with the finding and did not state whether it agreed or disagreed with the related recommendations. The Puerto Rico DOE did not agree with our determination that \$90.5 million in expenses that were charged to the Restart

program grant for the laptops and tablet computers met the definition of acquisition costs. According to the Puerto Rico DOE's comments, the laptops and tablet computers could be used for the purpose for which they were acquired, with the factory configuration and factory software that was already installed, and without the need for the additional configuration services and accessories that it purchased, such as image configuration and etching, data security software and installation, USB dongle adapters, headsets, microphones, and protective covers. As such, the Puerto Rico DOE claimed that the costs associated with these purchases should not be considered acquisition costs.

The Puerto Rico DOE stated that according to its "Need Assessment for Mobile Devices, Professional Development and Project Management," dated March 29, 2019, the intended purpose for acquiring the laptops and tablet computers was to build a wired and wireless technology infrastructure in every school and to prepare for and mitigate the effects of another emergency in the future. The Puerto Rico DOE also stated that the main purpose for acquiring the technology equipment was to provide to all teachers and students laptops or tablet computers that they could use to access instructional material even when the schools were closed as a consequence of an emergency. This would minimize the loss of instructional time, since the students could access the instructional material at their homes using their laptops and tablet computers.

The Puerto Rico DOE explained that the configuration services that it purchased in addition to the laptops and tablet computers, which included image configuration and etching and data security software and installation, were to protect its investment and standardize the programs and applications installed on the tablets and laptop computers. The Puerto Rico DOE also explained that the accessories purchased, which included protective covers, USB dongle adapters, headsets, and microphones, were to protect the laptops and tablet computers, provide additional functionalities for teacher laptops (such as a connection to monitors and screens in the classroom), and provide students with tools to communicate effectively in virtual classrooms. The Puerto Rico DOE stated that the additional items were not purchased to make the equipment usable for its intended purpose.

Regarding image configuration and etching expenses for teacher laptops, as stated above, the Puerto Rico DOE did not agree that these expenses should be considered acquisition costs. However, it did agree that the expenses should have been excluded from the indirect cost base, and explained that these expenses were included in the indirect cost base erroneously because it used the wrong accounting code to record the purchases. To address this error, the Puerto Rico DOE stated that it will reclassify the teacher laptops' image configuration and etching expenses of approximately \$2 million

from accounting code E4414 (non-capitalized equipment) to accounting code E1260 (professional and consulting services for information systems). This is an accounting code that represents a type of expense that should be excluded from the calculation of the indirect cost base. The next time the Puerto Rico DOE calculates indirect costs to be charged to the Restart program, those image configuration and etching expenses will not be included in the indirect cost base. The \$68,449 in indirect costs relating to the image configuration and etching expenses of approximately \$2 million will be subtracted from the total indirect costs that have been charged to the grant. The Puerto Rico DOE stated that it will also provide training to its staff regarding the classification of accounting codes in the procurement of goods and services and issue related guidance to all personnel involved in procurement processes that it conducts for Federal programs.

### **OIG Response**

We disagree with the Puerto Rico DOE's statement that the laptops and tablet computers could have been used for the purpose for which they were acquired using only the factory configuration and preinstalled factory software, and without any of the additional configuration services and accessories that it purchased. To comply with the image requirements listed in the Puerto Rico DOE's Request for Proposal and the two contracts it awarded for the acquisition of the technology equipment devices, the subcontractors needed to install and configure a custom operating system image on the laptops and tablet computers that, among other things, contained all required security protocols, before delivering the equipment to the students and teachers. Installing and configuring the custom operating system image would have modified or possibly removed the factory settings that the Puerto Rico DOE stated made the equipment usable for its intended purpose. Therefore, with only the factory settings installed on the laptops and tablet computers, the laptops would not have been usable as intended.

Furthermore, the Puerto Rico DOE stated in its funding plan that all costs associated with the acquisition of laptops and tablet computers were necessary for the proper and efficient implementation of the technology devices initiative. Additionally, the Puerto Rico DOE's policy for the acquisition of technological equipment requires the installation of a custom image. Specifically, the Puerto Rico DOE's Circular Letter 12-2015-2016 (June 2015) states that when the Puerto Rico DOE purchases a large number of computers, the supplier must coordinate with the Office of Information

Systems and Technology Support<sup>22</sup> (OSIATD by its Spanish acronym) for the installation of a streamlined custom image that includes, among other things, the installation of an operating system. According to an interview with the Chief Information Officer, the image configuration purchased for the laptops and tablet computers included the installation of an operating system, antivirus and office applications, mandatory security protocols for user access to the Puerto Rico DOE network and user accounts, and a custom lock screen not included with the devices' factory settings.

Regarding etching and data security software, the Puerto Rico DOE's "Need Assessment for Mobile Devices, Professional Development and Project Management," dated March 29, 2019, emphasized the importance of an asset management program and security measures needed to handle the large number of devices to be acquired. Also, the Request for Proposals stated that the functionality of mobile device tracking with the ability to locate a missing or stolen device and remotely lock the equipment was one of the most important features that needed to be included in the devices. As such, without the purchase of the etching and data security software, the proper handling and security of the devices could not be accomplished in order to provide them to teachers and students to take home and use for their intended purposes.

Regarding the accessories, according to the contract awarded for the acquisition of the teacher laptops, the protective cover was necessary to provide protection to the laptops during their normal transportation. The contract also stated that the cover increases a laptop's durability to withstand reasonable and normal daily use, occasional mishaps, and hazards such as a 4-foot drop, dust, dirt, and spills. The USB dongle adapter was necessary to accomplish its intended purpose of connecting the teacher laptops to the schools' wired networks to access instructional materials, as most schools did not have a Wi-Fi network at the time of the purchase, and the laptops lacked a port for wired connectivity. The headsets and microphones were necessary to achieve the intended use of the tablet computers by helping to minimize or avoid home distractions while teachers and students accessed instructional materials through the Puerto Rico DOE's network, which could impact the students' academic achievement when taking remote classes during an emergency. According to the Puerto Rico DOE's "Mobile Devices

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<sup>22</sup> The OSIATD department is responsible for maintaining and supporting operational information systems in the Puerto Rico DOE. They assist all department personnel with technology-related issues and maintain custody of the communication servers and Wi-Fi networks in the Computer Center. The OSIATD department is led by the Chief Information Officer.



Management Guide” (July 2022), sound can interrupt students' concentration in classes, and each student must use their headphones when required by the teacher.

Because the additional configuration services and accessories enabled the laptops and tablet computers to be used for their intended purposes, the costs associated with those purchases meet the Federal definition of acquisition costs at 2 C.F.R. 200.1 and should have been capitalized in accordance with the Puerto Rico DOE’s “Procedure for the Control and Accounting of the Property of the Puerto Rico Department of Education” (June 2006). As explained in the finding, capitalizable costs are to be excluded from the indirect cost base when calculating the amount of indirect costs to charge to a program.

The proposed actions that the Puerto Rico DOE plans to take are partially responsive to Recommendation 1.1 and are not responsive to Recommendation 1.2.

The Puerto Rico DOE’s proposed actions to address Recommendation 1.1 would not result in the reallocation of the entire \$2.5 million in unallowable indirect costs charged to the Restart grant. In addition, the Puerto Rico DOE’s proposed actions are not responsive to Recommendation 1.2 because the actions would not ensure that a purchasing officer assesses whether equipment purchases should be capitalized using the requirements established in 2 C.F.R. 200.1; the Department’s indirect costs agreements; and Regulation 11, “Basic Rules for the Control and Accounting of Fixed Assets” (December 2005).

We made minor changes to the finding to clarify the Puerto Rico DOE’s intended use of the student and teacher laptops and student tablet computers. However, we did not make substantive changes to the finding or recommendations.

## Finding 2. The Puerto Rico DOE Needs to Improve Its Management of Technology Equipment Acquired with Restart Program Funds

We found that the Puerto Rico DOE needs to improve its management of the technology equipment that it purchased for students and teachers using Restart program funds. In May 2023, we conducted physical inspections of a nonstatistical sample of student and teacher technology equipment that included 350 laptops, tablet computers, and storage and charging carts purchased for \$161,669.<sup>23</sup> We found that 215 student technology devices (61 percent) received in July 2020 (nearly 3 years ago)<sup>24</sup> were in storage and had never been used and that 21 student and teacher technology devices (6 percent) could not be located.<sup>25</sup> We found that the remaining 114 technology devices<sup>26</sup> we sampled (33 percent) were being used for their intended purposes.

The unused and missing technology devices are the result of the Puerto Rico DOE's inadequate controls over the management of its technology equipment. Inadequate management of technology equipment can result in unused, lost, and stolen equipment that would otherwise be available for the use of students and teachers to help restart school operations. In addition, storing technology equipment for nearly 3 years reduces 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.

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<sup>23</sup> The 350 devices included 264 student laptops, 60 teacher laptops, 18 student tablet computers, and 8 student storage and charging carts. This sample of 350 devices is a subset of purchases included in the 75 nonpayroll payments (totaling \$125.1 million) that we selected as part of our nonpayroll testing. We were able to obtain adequate documentation to support the 75 nonpayroll payments.

<sup>24</sup> The 215 devices included 209 student laptops and 6 storage and charging carts purchased for \$100,420.

<sup>25</sup> The 21 devices included 9 student laptops, 3 student tablet computers, and 9 teacher laptops purchased for \$9,237.

<sup>26</sup> The 114 devices included 46 student laptops, 15 student tablet computers, 2 storage and charging carts, and 51 teacher laptops purchased for \$52,012.

## Technology Equipment Not Used as Intended and Missing

The Puerto Rico DOE used \$131 million (22 percent) of its \$589.2 million Restart program grant to award two contracts for its Restart Devices Initiative (awarded on April 8, 2020, and May 5, 2020). The purpose of the initiative was to restart school operations by implementing redeveloped learning strategies, including replacing physical learning tools with online lessons, and providing teachers with the tools they needed to plan and create a versatile curriculum that addressed the students' needs to restart school operations. The \$131 million that the Puerto Rico DOE awarded to the contractors was for the purchase of 111,330 laptops and 18,000 tablet computers for students; 4,311 storage and charging carts for the laptops and tablets; 30,000 laptops for teachers; and supplementary devices and services such as device configuration for imaging and etching, software installation, headsets and microphones, covers and USB adapters, warranty services, training for teachers and school principals, project and inventory management, and device distribution and transportation.

We selected a nonstatistical sample of 290 technology devices for students (including 264 laptops, 18 tablet computers, and 8 storage and charging carts) and 60 technology devices for teachers (all laptops).<sup>27</sup> The 350 sampled technology devices (290 for students and 60 for teachers) were assigned to 8 different schools and 1 educational regional office. Below is a summary of the results of our review.

### Devices for Students

We visited the 5 schools and 1 regional office where the 290 sampled student laptops, tablet computers, and storage and charging carts were supposed to be located, according to the Puerto Rico DOE technology equipment inventory system and other supplemental records. We saw that 215 student technology devices (209 of the laptops and 6 of the storage and charging carts) were in storage at the Ponce Educational Regional Office. Those stored devices had been delivered in July 2020. According to an information technology technician with responsibility over the student and teacher devices at the Ponce Educational Regional Office, the devices had never been used or redistributed for nearly 3 years at the time of our visit in May 2023. The 215 student technology devices were originally ordered for students at a music school in the Ponce Educational Region. However, once Ponce officials found that the devices should not have been ordered for the music school because those students received laptops through their main school, the devices were sent to storage. The plan was to keep the

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<sup>27</sup> Refer to the Scope and Methodology section of this report for information about the sampling methodology used for selecting the devices.

devices in storage until schools in the Ponce Educational Region requested additional computers. However, according to the information technology technician, the schools never requested additional computers and it wasn't until we visited the regional office and inquired about the use of these technology devices that Ponce Educational Region officials decided to contact schools to see if the devices were needed. The information technology technician stated that Ponce Educational Regional officials are currently working to provide the devices to the schools in the region that need them.

We also found that for nine of the laptops and three of the tablet computers that were assigned to three of the five schools we visited, school officials could not locate the devices. The technology equipment inventory system showed that the 12 devices were assigned to the 3 schools; however, at the time of our visits, the system didn't have a record of the devices being assigned to any students at the schools. School officials could not locate the devices or find supplemental records showing the devices had been shipped out for warranty service work.

For the remaining 63 student laptops, tablet computers, and storage and charging carts that we sampled, we found that the devices were either currently being used or had been used at some point and were currently in storage, or that there was documentation to support that the devices had been shipped off to be repaired.

### **Devices for Teachers**

We visited the 1 regional office and contacted the 3 schools<sup>28</sup> where the 60 sampled teacher laptops were supposed to be located, according to the Puerto Rico DOE technology equipment inventory system, and found that 9 of the laptops could not be located. Eight of the nine laptops were assigned to the Ponce Educational Regional Office and, according to the inventory system, were never assigned or shipped to any teachers in the region. Therefore, the eight laptops should have been in storage; however, regional office staff could not locate the devices in storage. Each device is equipped with data security and device tracking software that uses geolocation technology, so at the time of our exit conference on July 5, 2023, regional office staff were still trying to locate the devices through this software. The other missing laptop was assigned to a teacher at one of the three schools that we contacted for our sample; however, the school director told us that the teacher who was assigned the laptop did

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<sup>28</sup> Because of timing, we were not able to visit the three school locations, so we asked school officials to provide us with pictures of the laptops (with the asset tag for each laptop showing the serial number and assigned asset number).

not have the laptop and was using a different one. The school director did not provide evidence that the laptop was found.

For the remaining 51 teacher laptops that we sampled, we physically saw one in storage at the Ponce Educational Regional Office (it was broken); school directors, the Chief Information Officer, and the Ponce Educational Regional Office information technology technician provided us with pictures of the other 50 (with an asset tag for each laptop that included the assigned asset number) and told us the laptops were either currently being used or had been used at some point and were currently in storage.

Table 6 provides a breakdown of the sampled student and teacher devices that were located and not located and their use.

**Table 6. Status of Sampled Student and Teacher Devices**

Item Description and Unit Cost	Universe (Quantity and Total Cost)	Sample Size (Quantity and Total Cost)	Number of Devices Not Located or Not Used as Intended (Quantity and Total Cost)	Number of Devices Located and Used as Intended (Quantity and Total Cost)
Student Laptops (Unit Cost: \$440)	14,910 \$6,560,400	264 \$116,160	218 \$95,920	46 \$20,240
Student Tablet Computers (Unit Cost: \$475)	3,150 \$1,496,250	18 \$8,550	3 \$1,425	15 \$7,125
Storage and Charging Carts for Student Laptops and Tablet Computers (Unit Cost: \$1,410)	602 \$848,820	8 \$11,280	6 \$8,460	2 \$2,820
Teacher Laptops (Unit Cost: \$428)	3,828 \$1,638,384	60 \$25,680	9 \$3,852	51 \$21,827
<b>Total</b>	<b>22,490</b> <b>\$10,543,854</b>	<b>350</b> <b>\$161,670</b>	<b>236</b> <b>\$109,657</b>	<b>114</b> <b>\$52,012</b>

According to 2 C.F.R. section 200.313(b), a State must use, manage, and dispose of equipment acquired under a Federal award by the State in accordance with State laws and procedures. Further, according to 2 C.F.R. section 200.313(c)(1), “equipment must be used by the non-Federal entity in the program or project for which it was acquired as long as needed.”

Also, 2 C.F.R. section 200.313(d)(3) requires that a control system be developed to ensure adequate safeguards to prevent loss, damage, or theft of property, and that any loss, damage, or theft be investigated.

In addition, Article 16, Section F of the Puerto Rico Department of Treasury’s Regulation 11, “Basic Rules for the Control and Accounting of Fixed Assets” (December 2005), which is applicable to all Puerto Rico Government agencies and departments, establishes controls for the use and accountability of government fixed assets. Specifically, the 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.

### **The Puerto Rico DOE Did Not Have Adequate Controls in Place to Manage Technology Equipment Acquired with Restart Program Funds**

The Puerto Rico DOE did not have adequate controls to ensure that technology equipment acquired with Restart program funds was used as intended, safeguarded, and accurately recorded in its technology equipment inventory system. Specifically, the Puerto Rico DOE’s written policies and procedures for the management of fixed assets and mobile equipment devices did not have guidance for educational regional offices and schools to manage surplus technology equipment that was in good condition and still had a useful life.

The Puerto Rico DOE’s “Procedure for the Control and Accounting of the Property of the Department of Education” (June 2006) and “Mobile Devices Management Guide” (July 2022) contain written policies, procedures, and guidance for the management of fixed assets and mobile equipment devices in effect during our audit period, including reporting missing or stolen assets to the police. However, neither of the two documents included specific guidance that officials from the Ponce Educational Region could use to properly manage surplus technology equipment that was in good condition and still had a useful life. The “Procedure for the Control and Accounting of the Property of the Department of Education” included procedures for the disposition of surplus assets. However, the procedures were related to assets that were in good condition but that did not have a useful life.

Inadequate management of technology equipment can result in unused, lost, and stolen equipment that would otherwise be available for the use of students and teachers to help restart school operations. In addition, purchasing technology equipment for a school that did not need it and storing it for nearly 3 years could reduce 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. Additionally, prompt return of the 215 devices that were erroneously ordered for the music school to the vendor could have saved the Puerto Rico DOE \$100,420 in equipment costs, and the Restart program funds could have been used for another purpose. Alternatively, the 215 devices could have been promptly redistributed based on need and used for their intended purpose.

## **Recommendations**

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

- 2.1 Complete its process of identifying schools in need of technology equipment and redistribute the 215 technology equipment devices as appropriate.
- 2.2 Work with school staff and teachers to find the 21 technology equipment devices that are missing and follow the procedures in the Mobile Devices Management Guide to report the missing equipment to the police, if necessary.
- 2.3 Review and update written policies and procedures for the management of fixed assets and mobile equipment devices to ensure that educational regional offices and schools properly manage surplus technology equipment.
- 2.4 Perform a comprehensive physical inventory of technology equipment devices purchased with Restart program funds and ensure that the devices are being used, appropriate guidance as updated per Recommendation 2.3 is followed to manage any surplus and missing equipment, and the technology equipment inventory system and pertinent inventory records are updated accordingly.

## **Puerto Rico DOE's Comments**

The Puerto Rico DOE neither agreed nor disagreed with the finding and recommendations. However, it acknowledged the challenges confronted in distributing and tracking the technology equipment devices it acquired with Restart program funds and described actions it has taken or plans to take in response to the recommendations. The Puerto Rico DOE stated that it is working diligently to develop and implement an improved system for tracking all technology equipment and ensuring proper use, maintenance, and safekeeping. Regarding Recommendation 2.1, the Puerto Rico DOE stated that it identified schools requiring technology equipment devices, is in the

process of delivering 90 (of the 215) technology equipment devices stored in the Ponce Region, and is assessing students' and teachers' needs for technology equipment to promptly redistribute the remaining (125) devices. Regarding Recommendation 2.2, the Puerto Rico DOE stated that it is working on locating the 22 missing technology equipment devices and assessing ways to enhance its process to manage technology equipment and prevent a recurrence of the same issue in the future, including updating required systems. In response to Recommendation 2.3, the Puerto Rico DOE stated that it recognizes the need to continue updating its existing guidelines and procedures for the management of fixed assets and mobile equipment devices. As a result, on July 13, 2023, the Puerto Rico DOE published a request for proposal for the review, update, and formulation of the policies and procedures of the Office of Information Systems and Technological Support for Teaching. The Puerto Rico DOE stated that in the meantime it has been disseminating constant communications regarding the management of technology equipment devices, including the warranty process. Finally, in response to Recommendation 2.4, the Puerto Rico DOE stated that it understands the need for tracking and locating missing devices and is conducting an inventory in every school and working on updating inventory records.

### **OIG Response**

The Puerto Rico DOE's proposed corrective actions, if implemented as described, are responsive to our recommendations.



### **Finding 3. The Puerto Rico DOE Made Unallowable Payroll Payments to Teachers**

The Puerto Rico DOE made unallowable payroll payments to teachers using Restart program funds. Specifically, from our statistical random sample of 87 payroll payments funded with Restart program funds, we found that 3 of the payments (3 percent)<sup>29</sup> were unallowable charges to the Restart program. The three payments, totaling \$6,000, were supposed to be charged to the Elementary and Secondary School Emergency Relief (ESSER) program, authorized under the Coronavirus Aid, Relief, and Economic Security (CARES) Act.<sup>30</sup> Based on our sample, we are projecting that the Puerto Rico DOE paid \$41,882 in unallowable payroll payments using Restart program funds. We are 90 percent confident that the unallowable amount is between \$15,667 and \$111,824. Restart program funds used for unallowable payroll payments were not available for activities related to restarting operations, reopening schools, and reenrolling students. For the other 84 payroll payments in our sample, the Puerto Rico DOE provided adequate documentation to support that the payments were allowable.

#### **The Puerto Rico DOE's Use of Restart Program Funds for Payroll Payments**

The Puerto Rico DOE developed a funding plan for the use of Restart program funds and part of the plan included payments to (1) teachers who participated in a painting initiative in which they were paid for hours spent painting schools from July 30, 2018, through August 10, 2018; (2) psychologists and nurses who worked at the schools during school years 2018-2019 (October 2018, through June 2019) and 2019–2020 (August 2020 through June 2021); and (3) teachers who, during school year 2018–2019, met the eligibility requirements for a performance bonus. All of these payments were categorized as payroll payments in the Puerto Rico DOE's accounting system. According to the Department's 2018 Frequently Asked Questions for the Restart program, salaries and performance bonuses are both allowable uses of funds.

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<sup>29</sup> In the draft audit report, we reported four unsupported bonus payments. In its response to the draft report, the Puerto Rico DOE provided additional documentation to support one of the four bonus payments.

<sup>30</sup> On March 27, 2020, the CARES Act, Public Law 116-136, was signed into law, authorizing more than \$2 trillion to battle COVID-19 and its economic effects.

Teaching staff eligible for a performance bonus had to meet one or more of the following three performance criteria:

1. Teaching staff who worked at schools that met the established performance goals in the subjects of English, Math, and Spanish, as measured by student scores in standardized tests during school year 2018–2019.
2. Teaching staff who worked at schools that received a 5-star performance rating based on the Puerto Rico DOE’s star framework model during school year 2018–2019.<sup>31</sup>
3. Teaching staff who worked at schools that reached the graduation rate established per the island-level goal of 81 percent for the 2018–2019 school year.

In addition to the three performance bonus payment categories mentioned above, the Puerto Rico DOE also paid bonuses of \$1,500 to teachers for the creation and implementation of innovative projects in their schools.

### **Unallowable Payroll Payments**

We selected a statistical random sample<sup>32</sup> of 87 payroll payments totaling \$119,826 from a universe of 115,100 payments totaling \$34.5 million to determine whether the payroll payments made using Restart program funds were used for allowable and intended purposes. The 87 payroll payments consisted of performance bonuses, payments to teachers who participated in the painting initiative, and payments to psychologists and nurses. From the 87 payroll payments in our sample, we found that 3 payments (3 percent) totaling \$6,000 were unallowable charges to the Restart program because they were part of an initiative approved to be paid using ESSER program funds. During the audit, the Puerto Rico DOE provided us with a spreadsheet that categorized all three payments as performance bonus payments.<sup>33</sup> However, as of the date of our exit conference on July 5, 2023, and despite multiple attempts made by

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<sup>31</sup> The star framework model is a framework established by the Puerto Rico DOE to measure and rate the performance of the Puerto Rico DOE schools based on common performance metrics. Schools receive a rating from one to five stars, with five being the highest rating.

<sup>32</sup> The sample was selected using a stratified, dollar-weighted, random sampling design to allow for a dollar projection.

<sup>33</sup> From the 87 payments in our sample, 34 payments totaling \$46,074 were categorized as performance bonuses.

the audit team to obtain the necessary evidence,<sup>34</sup> the Puerto Rico DOE was not able to provide documentation to support the eligibility of the three teachers to receive the performance bonuses. Later, in its response to the draft audit report, the Puerto Rico DOE stated that the three payments should have been allocated to the ESSER program. However, given the extended period of time it took the Puerto Rico DOE to locate and provide this documentation, we did not deem it readily available for examination when needed.

The Puerto Rico DOE provided adequate documentation to support the other 84 payroll payments in our sample, including the report of teaching staff who worked at schools that met the performance bonus criteria for school year 2018–2019, time and attendance records for the hours worked by the teaching staff, nurses, and psychologists; copies of the personal services contracts awarded to the nurses and psychologists; and memorandums approving the different payment categories.

According to the Department’s response to Question D-9 of the Department’s 2018 Frequently Asked Questions for the Restart program, Restart program funds may be used for educator-related costs, such as recruiting, retaining, and compensating new and current educators for school-based positions in public elementary and secondary schools impacted by a covered disaster or emergency, including through such mechanisms as paying salary premiums, performance bonuses, housing subsidies, signing bonuses, and relocation costs and providing loan forgiveness.

In addition, 2 C.F.R. 200.403(a) and (g) state that to be allowable under Federal awards, costs must be allocable to the award and adequately documented.

Also, the regulations at Title 34 C.F.R. section 76.730(b) and (e) state that a State and a subgrantee must keep records that fully show how the State or subgrantee uses the funds, and other records to facilitate an effective audit.

Further, 34 C.F.R. section 76.731 states that a State and a subgrantee must keep records to show its compliance with program requirements.

Lastly, according to 2 C.F.R. 200.303(a), a non-Federal entity must establish and maintain effective internal controls over its Federal award that provide reasonable assurance that it is managing its award in compliance with Federal statutes, regulations, and the terms and conditions of its award. These internal controls should be compliant

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<sup>34</sup> The team requested the documentation on May 4 and 30, 2023; June 1, 20, 26, and 27 of 2023; and during the exit conference on July 5, 2023.

with guidance in the Government Accountability Office’s (GAO) “Standards for Internal Control in the Federal Government” or the Committee of Sponsoring Organizations of the Treadway Commission’s “Internal Control Integrated Framework,” of May 2013. The GAO’s “Standards for Internal Control in the Federal Government” include principles focused on control activities, including appropriate documentation of transactions and internal controls. Section 10.03 states that management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination, and that documentation and records are properly managed and maintained.

In its comments to the draft audit report, which are summarized in the [Puerto Rico DOE’s Comments](#) section of this finding, the Puerto Rico DOE stated that it inadvertently charged the three performance bonus payments to the Restart program, but that they were supposed to be charged to the ESSER grant as additional compensation to teachers who participated in creating and implementing educational modules to assist in the continuation of services during the Coronavirus (COVID-19) pandemic. Due to human error during the preparation of the documents that the Payroll Office needed to submit to the Puerto Rico Department of Treasury (Hacienda) to process bonus payments related to the Restart and ESSER grants, the Restart grant accounting code was used in the list containing the names of teachers who participated in the initiative covered under the ESSER program. As such, the Puerto Rico DOE stated that there are additional payments, other than the three we identified in our sample, that it inadvertently charged to the Restart grant that should have been charged to the ESSER grant. The Puerto Rico DOE did not disclose how many erroneous payments were charged to the Restart grant nor the amount.

Regarding the results of our sample testing, because the Puerto Rico DOE paid \$6,000 in unallowable payments to three teachers, and our sample selection was based on a statistical random sample of payroll payments, we are projecting that the Puerto Rico DOE paid \$41,882 in unallowable payroll payments using Restart program funds. We are 90 percent confident that the unallowable amount is between \$15,667 and \$111,824.

## **Recommendation**

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

- 3.1 Determine the total amount of payroll payments incorrectly made using Restart program funds and reallocate any unallowable amount to the Restart program grant.

- 3.2 Ensure that staff maintain and manage documents supporting activities funded with Federal education program grants so that records are readily available when needed.

### **Puerto Rico DOE's Comments**

The Puerto Rico DOE did not state whether it agreed or disagreed with the finding and recommendations, however, it did provide additional supporting documentation and described the corrective actions it plans to take to address Recommendation 3.1.

In the draft report, we reported on four unsupported bonus payments. In its response to the draft report, the Puerto Rico DOE provided additional documentation to support one of the four bonus payments. The Puerto Rico DOE explained that in addition to the three performance bonus payment categories mentioned in the draft audit report, the Puerto Rico DOE also paid bonuses of \$1,500 to teachers for the creation and implementation of innovative projects in their schools. The bonus payment for which they provided additional documentation belonged in this category.

Regarding the other three unsupported bonus payments, the Puerto Rico DOE stated that it erroneously used the Restart program's accounting code for processing incentive payments for teachers who participated in creating and implementing educational modules to assist in the continuation of services during the COVID-19 pandemic, which were supposed to be paid using ESSER program funds. The Puerto Rico DOE stated that it committed the error when the official leading the incentive initiative sent to the Payroll Office two lists of incentives (one related to the Restart program and one related to the ESSER program), with the Restart program's accounting code listed as the code to use to charge both the Restart grant bonus payments and the ESSER grant payments. According to the Puerto Rico DOE, it has already started the process to make the necessary adjustments to revert the erroneous bonus payments using Restart program funds back to the Restart program grant and charge them to the ESSER program grant.

### **OIG Response**

During the audit, we requested the Puerto Rico DOE to provide documentation supporting the eligibility of the teachers who received the four payments we had initially classified as unsupported. However, the Puerto Rico DOE was not able to provide the documentation during the course of our audit. In its comments to the draft audit report, the Puerto Rico DOE provided additional information and documentation related to the four payments. Based on the information and additional documentation that the Puerto Rico DOE provided with its response, we modified the finding to remove one of the four bonus payments we had initially classified as unsupported. However, as stated in the finding, the documentation was not readily available for examination when

needed and it took the Puerto Rico DOE extensive time to locate and provide it. We also added the new information about the fourth category of bonus payments that the Puerto Rico DOE used to make bonus payments to teachers. In addition, we modified the finding to clarify that the other three payments that we had initially questioned as unsupported are now unallowable because they were part of an initiative approved by the Puerto Rico DOE to be paid using ESSER program funds and not intended or approved to be paid using Restart program funds. Also, we revised recommendation 3.1 to ensure that it addresses all of the unallowable payments charged to the Restart grant that were supposed to be charged to the ESSER grant. Finally, although Recommendation 3.2 in the draft audit report was no longer applicable based on the additional information the Puerto Rico DOE provided, we replaced it with a new recommendation to ensure that the Puerto Rico DOE staff maintain and manage documents supporting activities funded with Federal education program grants so that records are readily available when needed.

The Puerto Rico DOE's proposed corrective action to revert the erroneous bonus payments using Restart program funds back to the Restart program grant and charge them to the ESSER program grant is responsive to Recommendation 3.1.

## Appendix A. Scope and Methodology

We evaluated whether the Puerto Rico DOE used Restart program funds for allowable and intended purposes. Our review covered the 2018 Restart program funds expended from April 30, 2018, through August 31, 2022.

To achieve our audit objective, we gained an understanding of relevant Federal and State laws, regulations, and guidance, including the HERA; the Bipartisan Budget Act of 2018; Cost Principles at 2 C.F.R. Part 200, Subpart E; and the Department's 2018 Frequently Asked Questions for the Restart program.

We also performed the following procedures to achieve our audit objective:

- Interviewed Puerto Rico DOE officials responsible for administering the Restart program to gain an understanding of how they administered and spent Restart program funds.
- Reviewed the Puerto Rico DOE's written policies and procedures to gain an understanding of its established systems of internal control for ensuring that Restart program funds were used for allowable and intended purposes, and how the Puerto Rico DOE managed technology equipment devices purchased with Restart program funds.
- Reviewed the Puerto Rico DOE's Single Audit reports for 2018, 2019, and 2020.

We also conducted testing of samples of indirect costs, payroll payments, and nonpayroll payments (see "Sampling Methodology"). As part of this testing, we performed the following procedures:

- Reviewed documentation that the Puerto Rico DOE provided in support of the samples of payments. The documentation we reviewed included the Puerto Rico DOE's Restart program funding plan,<sup>35</sup> initiatives' work plans,<sup>36</sup> indirect cost rate agreements in effect during our audit period, indirect cost calculations, employee time and attendance reports, copies of personal services contracts, a report of active teachers who worked in schools that met the performance

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<sup>35</sup> The funding plan included the justifications for each expense category the Puerto Rico DOE was planning to fund with Restart program funds.

<sup>36</sup> Work plans establish the objectives of the initiative, resources needed (goods, services, or both), and how the project would be implemented.

bonus criteria for school year 2018–2019, copies of letters sent to schools to inform them whether they met the performance bonus criteria, copies of vendor invoices, copies of contracts, and receiving reports.

- Evaluated documentation supporting the procurement process for the contracts related to a judgmental selection of two initiatives for the purchase and installation of network equipment (Wi-Fi Initiative), and the purchase of laptops, tablet computers, and storage and charging carts (Restart Devices Initiative). We performed this evaluation to determine whether the Puerto Rico DOE complied with applicable procurement regulations.
- Conducted physical inspections of nonstatistical random samples of technology equipment devices at five schools and one regional office, and contacted school directors and reviewed pictures of technology equipment devices for three additional locations that were not visited, along with inventory records for the sampled devices.

### **Sampling Methodology**

To determine whether the Puerto Rico DOE used Restart program funds for allowable and intended purposes, we selected the following samples for audit testing:

- A nonstatistical random sample of 1 journal entry posted on May 13, 2021, totaling \$784,650 from a universe of 15 journal entries totaling \$8.6 million that the Puerto Rico DOE used to expense indirect costs to the Restart grant during our audit period. We also judgmentally selected for testing the last journal entry that charged indirect costs to the Restart program in our audit period, posted on August 9, 2022, totaling \$ 172,344. Because our samples were not statistical random samples, the results of our testing of indirect costs presented in this report cannot be projected to the universe of indirect cost journal entries made during our audit period.
- A statistical random sample of 87 payroll payments totaling \$119,826 from a universe of 115,100 payments totaling \$34.5 million. The sample was selected using a stratified, dollar-weighted, random sampling design to allow for a dollar projection.<sup>37</sup> The strata consisted of two groups: payments made before and on February 28, 2021 (stratum 1), and payments made after February 28, 2021,

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<sup>37</sup> A dollar-weighted sampling approach allows for a payment to be selected more than once in the sample (sampling with replacement). There were no duplicate selections (payments selected more than once) for the payroll sample.



(stratum 2). February 28, 2021, represents the date when the Puerto Rico DOE implemented controls to ensure that only active employees receive payroll payments.<sup>38</sup> The sample size was computed to project the results of our sample testing to the universe of payments totaling \$34.5 million, with an error rate of 50 percent to allow for a projection to a 90-percent confidence interval with a 10-percent precision rate. The variable used to weight the sample was the dollar amount of the payment.

- A statistical random sample of 75 nonpayroll payments totaling \$125.1 million from a universe of 34,556 payments totaling \$424.5 million made during our audit period. The sample was selected using a stratified, dollar-weighted, random sampling design to allow for a dollar projection.<sup>39</sup> The two strata used consisted of payments for (1) equipment and (2) non-equipment to ensure coverage of equipment purchases in the sample, given the significant amount of Restart program funds spent for the purchase of equipment devices during our audit period (approximately \$90.5 million or 15.4 percent of the award). The sample size was computed to project the results of our sample testing to the universe of payments totaling \$424.5 million, with an error rate of 50 percent to allow for a projection to a 90-percent confidence interval with a 10-percent precision rate. The variable used to weight the sample was the dollar amount of the payment.
- A judgmental selection of 2 of the 18 initiatives represented in our statistical random sample of 75 nonpayroll payments, to perform limited testing of the Puerto Rico DOE's compliance with applicable procurement regulations. We selected the two largest dollar amount initiatives with a procurement process

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<sup>38</sup> In a flash report "Puerto Rico Department of Education's Unallowable Use of Temporary Emergency Impact Aid for Displaced Students Program Funds for Payroll Activities," issued in June 2021, we reported that the Puerto Rico DOE may have charged up to \$1.3 million in unallowable payroll costs to the Temporary Emergency Impact Aid for Displaced Students program for payments to 539 employees 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.

<sup>39</sup> A dollar-weighted sampling approach allows for a payment to be selected more than once in the sample (sampling with replacement). The total number of payments selected was 97 payments. There were 15 payments selected more than once for the nonpayroll sample: 1 payment was selected 6 times, 1 payment was selected 4 times, 1 payment was selected 3 times, and 12 payments were selected 2 times.

conducted during our current audit period and not reviewed in our prior audit of the Puerto Rico DOE's internal controls over Restart program.<sup>40</sup> The 2 initiatives judgmentally selected were the Restart Devices Initiative (with 20 payments totaling \$74.9 million) and the Restart Wi-Fi Initiative (with 3 payments totaling \$7.3 million). Because we judgmentally selected the 2 initiatives, the results of our testing of compliance with procurement regulations presented in this report cannot be projected to the universe of 18 initiatives represented in our statistical random sample of nonpayroll payments.

### **Nonstatistical Samples for Inspection of Technology Devices**

To determine whether technology equipment purchased using Restart program funds was being used as intended, we used a three-step approach to select a nonstatistical sample of 350 technology devices. In the first step, we judgmentally selected nonpayroll payments made for the purchase of technology equipment devices for students and teachers (see Table 7). In the second step, we judgmentally selected locations that received the technology equipment from payments selected in the first step (see Table 8). In the third step, we randomly and judgmentally selected technology equipment from each of the locations selected in the second step (see Table 9). Because we used a nonstatistical sample, the results of our physical inspections of technology devices presented in this report cannot be projected to the universe of technology devices purchased by the Puerto Rico DOE during our audit period. See the tables below for the universes and nonstatistical samples we used for our inspections and review of a total of 350 technology devices purchased with Restart program funds.

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<sup>40</sup> The final audit report, control number ED-OIG/A04S0013, was issued in July 2019. The audit performed limited testing of the Puerto Rico DOE's compliance with its procurement for a sample of six transactions. One of the six transactions was for the purchase of textbooks with Restart program funds.

**Table 7. Step 1: Selection of Payments for the Purchase of Technology Devices**

Payment Category	Universe of Payments	Number Selected	Methodology	Selected Payment Amount	Number of Locations that Received Devices from Selected Payments
Student Devices	6	1	Judgmentally selected highest payment amount.	\$8,905,470	110
Teacher Laptops	6	1	Judgmentally selected highest payment amount.	\$2,285,163	192

**Table 8. Step 2: Selection of Locations that Received the Technology Devices Paid from the Two Payments Judgmentally Selected in Step 1**

Payment Category	Universe of Locations	Number Selected <sup>41</sup>	Methodology	Total Number of Technology Devices in Selected Locations
Student Devices	110	6	Judgmentally selected five schools with the highest number of devices received and the only one educational regional office that received devices for students.	2,168
Teacher Laptops	192	4	Judgmentally selected the four locations with the highest number of laptops received.	1,105

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<sup>41</sup> One of the locations was selected for both the student devices and the teacher devices, resulting in a total of 9 different locations instead of 10.

**Table 9. Step 3: Sample/Selection of Technology Devices from the 10 Locations Judgmentally Selected in Step 2**

Payment Category	Universe of Devices	Number Selected	Methodology
Student Devices	2,168	290	Randomly selected 15 devices from each of the 5 selected schools (75 total) and judgmentally selected all 215 devices from the Educational Regional Office.
Teacher Laptops	1,105	60	Randomly selected 15 devices each from 3 of the 4 selected locations (45 devices), and randomly and judgmentally selected 15 devices from the fourth location (9 devices randomly selected, and 6 devices judgmentally selected).

### Use of Computer-Processed Data

We relied, in part, on computer-processed data from the Puerto Rico DOE’s financial information system consisting of reports of journal entries and payroll and nonpayroll payments made during our audit period for the purpose of selecting our samples for testing. To assess the accuracy and completeness of the data, we compared and reviewed data elements of the sampled items, such as vendors and employees’ names, invoice numbers, dates, and amounts with supporting documentation such as vendors’ invoices and staff time and attendance records. We also traced journal entries and payments in the reports to the Puerto Rico DOE’s financial information system. In addition, we used computer-processed data from the Puerto Rico DOE’s technology equipment inventory system consisting of reports of technology devices purchased with Restart program funds to select our sample of technology equipment devices and perform physical inspections. To assess the accuracy and completeness of the data, we compared and reviewed data elements of the sampled items, such as the equipment’s make and model, serial number, and assigned location, with supporting documentation, such as vendors’ invoices and receiving reports. Based on the work performed, we determined that the information was sufficiently complete and reliable to be used in meeting the audit objective.

### Internal Controls

We considered only limited aspects of internal controls over compliance with the applicable Federal requirements significant within the context of the audit objective. Therefore, our assessment of the design of internal controls was limited to gaining an understanding of the Puerto Rico DOE’s processes (including controls) within the context of the individual items selected for testing and determining the underlying cause for identified findings.

## **Compliance with Auditing Standards**

We conducted this performance audit 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We performed our audit work remotely from October 2022, through July 2023, with site visits to five schools and one regional office from May 2, 2023, through May 11, 2023. We held an exit conference with the Puerto Rico DOE on July 5, 2023, to discuss the results of the audit.

## Appendix B. Description of Acquisition Costs to Make Technology Equipment Devices Usable for the Intended Purpose

Item or Service	Purpose and Description of Additional Services and Accessories
Image Configuration and Etching	<p>Image Configuration: Streamlined custom image configuration for students' and teachers' laptops and tablet computers, which included the installation of the operating system and specified software, such as antivirus and office applications, network domain (mandatory security protocols for user access to the Puerto Rico DOE network and user accounts), and custom lock screen. The Puerto Rico DOE has a volume licensing agreement with Microsoft to acquire the operating system used in the image configuration of the student and teacher laptops.</p> <p>Etching: Laser etching of a permanent tamper-proof label to identify the equipment as property of the Puerto Rico DOE.</p>
Data Security Software and Installation	<p>Installation of a data security software on students' and teachers' laptops and students' tablet computers. The data security software provided data protection and a secured connection between the devices and the Puerto Rico DOE's network, and the detection and remediation of sensitive data breaches of personally identifiable information, among other protections. In addition, the software facilitated the tracking of the devices and the management of inventory, including the ability to locate and remotely lock each equipment device.</p>
Rugged Cover and USB Dongle Adapter	<p>The rugged cover served as protection for teachers' laptops, to protect from damage caused by drops and spills. The USB dongle adapter was necessary to connect teachers' laptops to schools' wired networks.</p>
Stereo Headset and Microphone	<p>External accessories for students' tablet computers acquired to provide accessibility for students who may have an impairment (visual, hearing, cognitive, etc.) that interferes with the use of the tablet computer.</p>

## Appendix C. Acronyms and Abbreviations

CARES Act	Coronavirus Aid, Relief and Economic Security Act
C.F.R.	Code of Federal Regulations
Department	U.S. Department of Education
COVID-19	Coronavirus
Direct cost base	Modified total direct cost
ESSER	Elementary and Secondary School Emergency Relief
FY	fiscal year
GASB	Governmental Accounting Standard Board
HERA	Hurricane Education Recovery Act
LEA	Local Educational Agency
OIG	Office of Inspector General
OSIATD	Office of Information Systems and Technology Support (acronym for the name of the department in Spanish)
Procurement Office	Puerto Rico DOE's Central Office of Purchases, Obligations, and Allocation of Funds
Puerto Rico DOE	Puerto Rico Department of Education
Restart	Immediate Aid to Restart School Operations
USB	Universal Serial Bus

# Puerto Rico DOE's Comments



**GOVERNMENT OF PUERTO RICO**  
**DEPARTMENT OF EDUCATION**  
**Office of Federal Affairs**  
Director | María de los A. Lizardi-Valdés | lizardi\_m@de.pr.gov

November 3, 2023

Mrs. Selina Boyd  
Regional Inspector General for Audit  
United States Department of Education  
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Washington, DC 20202-1510  
[Selina.boyd@ed.gov](mailto:Selina.boyd@ed.gov)

**RE: PRDE RESPONSE TO THE SEPTEMBER 21, 2023 OIG RESTART PROGRAM  
AUDIT NUMBER ED-OIG/A19GA0098 DRAFT REPORT**

Dear Mrs. Boyd:

First, PRDE would like to thank you and your staff for the extension provided for the submission of the response to the drafted report of the referenced audit. In compliance with the extension provided, PRDE delivers the corresponding reaction with additional documents for your consideration.

**INTRODUCTION:**

The Office of Inspector General (OIG) has been performing an audit to the Puerto Rico Department of Education (PRDE), in regard to the use of the Immediate Aid to Restart School Operations (Restart) program funds, of the period that includes from April 30, 2018 through August 31<sup>st</sup>, 2022. After the works performed, on September 21, 2023, the OIG submitted its "Draft Report" outlining the agency's final observations and recommendations regarding the said procedures. Therefore, following the adequate actions of this audit, PRDE hereby submits the responses of the said observations, and remains available for any future communications and/or meetings that you deem necessary.

**Audit Finding #1: The Puerto Rico DOE Charged Nearly \$2.5 Million in Unallowable Indirect Costs to the Restart Program**

**PRDE Response:**

The Puerto Rico Department of Education (PRDE) disagrees with the last paragraph of page 9 of the aforementioned report, which states the following:

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The Department of Education does not discriminate under any circumstance on the grounds of age, race, color, gender, birth, religion, veteran status, political ideals, sexual orientation, gender identity, social condition or background, physical or mental incapacity; or for being victim of aggression, harassment, or domestic violence.



"We identified a total of \$90.5 million in expenses that we determined met the definition of acquisition costs for the laptops and tablet computers that were charged to the Restart program from September 8, 2020, to March 4, 2021. Of the \$90.5 million, \$74.3 million was part of the 15 expenses we had already selected for review that were included in the direct cost base of the indirect cost allocation calculation, while the other \$16.2 million was not included in the direct cost base".

This paragraph includes footnote number 14, which states the following:

The regulations at 2 C.F.R section 200.1 define acquisition cost as the cost of the asset including the cost to ready the asset for its intended use. For equipment, this means the net invoice price of the equipment, including any modifications, attachments, accessories, or auxiliary apparatus necessary to make the equipment usable for its intended purpose; and for software, this includes installation costs if in accordance with the non-Federal entity's regular accounting practices.

With this response, PRDE includes direct citations from the Code of Federal Regulations (CFR) 200.1 and Article XII.A of the Puerto Rico Department of Treasury's Regulation 11, "Basic Rules for the Control and Accounting of Fixed Assets" (December 2005) in order to support the Agency's argument. In the report drafted by the OIG PRDE found interpretations of what is defined as the acquisition cost necessary for an equipment to be considered usable for the intended purpose proposed. It should be noted that the term *usable* is not defined in the CFR.

2 CFR 200.1 specifically reads as follows:

"Acquisition Cost means the cost of the asset including the cost to ready the asset for its intended use. Acquisition cost for equipment, for example, means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Acquisition costs for software includes those development costs capitalized in accordance with generally accepted accounting principles (GAAP). Ancillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in or excluded from the

acquisition cost in accordance with the non-Federal entity's regular accounting practices.<sup>1</sup>

On the other hand, Article XII.A of Basic Rules for the Control and Accounting of Fixed Assets states that, the actual value of the fixed asset shall be its sale price less discounts, plus transportation, delivery and installation costs, and the payment of excise duties.<sup>2</sup> In turn, the public policy of the Government of Puerto Rico defines a fixed asset as personal property and real estate property acquired or that may be acquired by agencies, whose cost per unit is \$500 or more and with a useful life of two years or more, whether through purchase, transfer, assignment, donation or by other means.<sup>3</sup>

When performing a search for the term *usable* online, the initial result defines it as, "*capable of being used*".<sup>4</sup> Similarly, the PRDE, when making the request for proposals (RFP) for this initiative, took into consideration the minimum specifications necessary for this equipment, which were requested through the RFP process. Therefore, the computers and tablets itself that were selected in this process contained the necessary requirements for such equipment to be considered *usable* for the purposes for which they were acquired. Specifically, this initiative established in its needs study entitled, *Need Assessment for Mobile Devices, Professional Development and Project Management*, dated May 29, 2019 (please see **attachment 1A**), that the acquisition of this equipment responded to:

[T]he reconstruction efforts, we are building a better infrastructure and making sure that all students and teaches within the education system have mobile devices (tablets & laptops) to be used in accordance to the wired and wireless networks implementation efforts within every school of Puerto Rico. In addition, the PRDE would like to mitigate the negative effects if it has to face another emergency in the future. That is why the PRDE would like to use the Restart funds to acquire e-books, tablets and other technology devices. This acquisition would help the PRDE to be well prepared for a future emergency. With technology devices, students may have access to instructional material even when school is out as a consequence of an emergency. This would minimize the loss of instructional time, since teachers can tell students which material they can download before the school

<sup>1</sup> 2 CFR 200.1 "Acquisition Cost", [https://www.ecfr.gov/current/title-2/part-200/section-200.1#p-200.1\(Acquisition%20cost\)](https://www.ecfr.gov/current/title-2/part-200/section-200.1#p-200.1(Acquisition%20cost)), Last access in October 18, 2023.

<sup>2</sup> Puerto Rico Department of Treasury's Regulation 11, "Basic Rules for the Control and Accounting of Fixed Assets", Article XII. A (December 2005).

<sup>3</sup> *Id.* Article V. A.

<sup>4</sup> <https://www.merriam-webster.com/dictionary/usable>. Last access in October 26, 2023.

closes and students can access the material in their homes and continue with the classroom curriculum.<sup>5</sup>

In other words, the main purpose of the acquisition of this equipment was to "help the PRDE to be well prepared for a future emergency. With technology devices, students may have access to instructional material even when school is out as a consequence of an emergency." For this reason, in order for these computers and tablets to be considered *usable*, they only required to meet the minimum specifications required for these devices, specifications that took into consideration issues of connectivity, software, among other important aspects (see Evertec & Computerlink Proposal Submittal Revised Form 11). In other words, in order for laptops and tablets to be used by teachers and students, there was no need for image configuration and etching, data security software and installation, a protective cover, a USB dongle adapter or a headset and microphone. The needs study envisioned that the devices would have the capacity to provide access to instructional material. So, the cost of acquiring laptops and tablets to make them *usable* for the purpose they were acquired only took into consideration the cost of the computer or tablet itself. That is why the PRDE, when contemplating the analysis for the calculation of the indirect cost base, took only into consideration the computers of teachers and students and the tablets of the students, since the CFR indicates that the acquisition cost "means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired".<sup>6</sup>

In this regard, the final report of the United States Department of Education, Office of Inspector General of February 20, 2013, with control number ED-OIG/A04M0014 (see **attachment 1B**), addresses a previous finding to the PRDE in which it was determined that certain equipment was not used for the purposes acquired because it did not have the software required installed to be used for the said initiative. That report on page 3 stated the following, "[t]he three schools 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." Taking into consideration what is indicated in the

<sup>5</sup> OSIATD, Departamento de Educación de Puerto Rico, *Need Assessment for Mobile Devices, Professional Development and Project Management*, March 29, 2019.

<sup>6</sup> 2 CFR 200.1 "Acquisition Cost", [https://www.ecfr.gov/current/title-2/part-200/section-200.1#p-200.1\(Acquisition%20cost\)](https://www.ecfr.gov/current/title-2/part-200/section-200.1#p-200.1(Acquisition%20cost)). Last access in October 18, 2023.

said statement, the interpretation of the intended use that was employed in that case is that the equipment delivered is functional by itself for the purposes acquired, just lacking the software required for the work plan. On the Restart case, both, the teachers and student's laptops and the student's tablets had the ability to be used for the purposes they were acquired without the need for the professional services of image configuration and etching; data security software and installation; and without the optional accessories of cover, USB dongle adapter and headset and microphone. These additions were supports needed to better execute the project, since the Microsoft software was included and paid with other funds.

In relation to the acquisition of image configuration and etching, data software and installation and cover protector services, these were professional services and optional accessories respectively, acquired to standardize and protect the acquisition of computers and tablets. The computers and tablets given to students and teachers, as part of this initiative, were functional on their own, for the purpose for which they were acquired. The professional services contracted from image and etching, data security software and installation; were intended to standardize and protect the investment made in these computers and tablets through the installation of an image that was provided by the PRDE to the suppliers so that they would have the same version of certain programs and applications and that in turn the computers and tablets would have antivirus protection. While the cover, USB dongle adapter and headset and microphone were intended to protect computers, offer the additional functionality that the teacher's computer could be easily connected to a larger monitor, and provide an additional alternative for students to communicate in a virtual classroom via tablets, respectively. As you may know, tablets have the ability to reproduce sound and any user is able to speak through the microphone integrated internally in them, so the use of the headset and microphone is only optional.

Moreover, the PRDE is not in agreement with the following paragraph on page 11 of the draft report, which states:

"The costs of the items included in Tables 1 and 2 meet the Federal definition of acquisition costs at 2 C.F.R. 200.1 and should have been capitalized in accordance with Puerto Rico DOE's "Procedure for the Control and Accounting of the Property of the Puerto Rico Department of Education," (June 2006). For example, the two contracts awarded for the acquisition of the technology equipment devices required custom image configuration on all the devices to make them usable for the purpose for which they were acquired. **The custom image configuration consisted of the installation of an operating system, Microsoft Office, Adobe**

**Reader, and other software.** The contracts also required the installation of data security software on all devices, which provided a secured connection between the devices and the Puerto Rico DOE's network. The security software also allowed for the tracking of the devices and the management of inventory, including the ability to locate and remotely lock each equipment device to prevent data security breaches."

The requirement for professional custom image configuration service needed on computers and tablets was not necessary for them to be *usable* for the purpose for which they were acquired. As previously mentioned, this service was used to standardize the equipment and protect the investment made in this initiative, necessary for the project implementation, but not to make the equipment usable. In particular, when referring to the contract of the supplier Evertec (please **see attachment IC** for contract 2020- AF0102), in its clause 1.2 *DEVICES SERVICES, 1.2.1 IMAGING, k.*, it indicates the following:

"k. The **SECOND PART** will install the image provided by the **FIRST PART**, with their specified programs and apps, such as the latest version of the Microsoft Office, McGraw Hill modern app, and Adobe Reader prior to school delivery. <sup>7</sup>"

Regarding the Computerlink Supplier Contract (please **see attachment ID** for contract 2020-AF0101), in the clause 3.2 *DEVICE SERVICES, 3.2.1.1 IMAGING*, nothing is stated about the installation of programs.<sup>8</sup>

Therefore, the OIG's assertion that "[t]he custom image configuration consisted of the installation of an operating system" is incorrect. The installation of the Windows 10 Professional operating program that would replace the Windows 10 Education operating system that the teachers' laptops had installed from the factory (see Evertec Proposal Submittal Revised Form 11 as **attachment IE**), was included in the cost of the equipment and not as part of the professional custom image configuration service. In the contract of the supplier Evertec (2020- AF0102), the installation of the operating system for these laptops is contained in clause *1.1.1 Laptops and accessories for Windows, III. The SECOND PART will provide Teacher's Laptops to the FIRST PART and will comply with the following additional device specification: 13. Microsoft Windows*, which states the following:

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<sup>7</sup> 2020-AF0102, Evertec Contract page 7.

<sup>8</sup> 2020-AF0101, Computerlink Contract page 11.

“The **FIRST PART** has a volume licensing agreement for Microsoft Windows. Copies of the Microsoft “Shape The Future” authorization letter/SKU and Appendix will be posted and available on the Department’s website at [www.de.pr.gov](http://www.de.pr.gov). The **SECOND PART** must, at the **FIRST PART’s** request, substitute Windows 10 Home version for Windows 10 Professional version and pass the discount offered by Microsoft for the use of the SKU as a savings on the price of each computer/device purchased.<sup>9</sup>”

As for student laptops, the contract with the provider Computerlink in its clause 3.1.2.13 MICROSOFT WINDOWS, includes the following:

a) The **FIRST PART** has a volume licensing agreement for Microsoft Windows. Copies of the Microsoft “Shape The Future” authorization letter/SKU and Appendix will be posted and available on the Department’s website at [www.de.pr.gov](http://www.de.pr.gov). The **SECOND PART** must, at the **FIRST PART’s** request, substitute Windows 10 Home version for Windows 10 Professional version and pass the discount offered by Microsoft for the use of the SKU as a savings on the price of each computer/device purchased.

b) The HP X360 11 G3 EE include Windows 10 Pro (National Academic only) (Strategic) license according to Shape the Future Letter of Eligibility for Puerto Rico, Department of Education with reference number 4431. The pricing provided in this response reflects appropriate Microsoft STF discounts.<sup>10</sup>”

The aforementioned clauses in both contracts render incorrect the assertion made by the OIG, since the installation of the operating system for the laptops of teachers and students is not included in the price of the professional image configuration service. At the same time, according to the contract, there wasn’t installation of an operating system on the student’s tablets. Therefore, the professional imaging service only contemplated the standardization of the equipment with the installation of the image and the updating of applications (only in the case of teacher laptops) that were already part of the equipment. Which is why the purchased laptops and tablets were *usable* for the purpose they were acquired without professional imaging service. As mentioned above, the purpose of the imaging service was to standardize the equipment and

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<sup>9</sup> 2020-AF0102, Evertec Contract page 6.

<sup>10</sup> 2020-AF0101, Computerlink Contract page 10.

protect the investment made in this initiative, necessary for the project implementation, but not to make the equipment usable.

As for etching's professional service, it only contemplated the "laser etching or affixing a permanent tamper-proof label with the **FIRST PART** logo and the words "Property of PRDE/OSIATD" for laptops and tablets purchased through both contracts."<sup>11</sup> Therefore, the etching service is not necessary for laptops and tablets to be *usable* for the purpose for which they were acquired, but is a measure of protection to the investment made through this initiative, as part of the internal controls PRDE should put in place.

Likewise, PRDE opposes with what is stated in footnote number 15 on page 10 of the aforementioned report, which states the following:

"There were also \$1.4 million in costs related to asset tagging, other configurations, and warranty service for the teacher laptops; however, these costs were not broken down by item in the contracts and invoices. Therefore, although asset tagging and configuration costs are considered acquisition costs per Federal definition, we did not include them in Table 1 or Table 5 of this report because we were unable to determine the portion of the \$1.4 million that was for asset tagging and configuration."

As stated above, the laptops and tablets purchased through this initiative were *usable* for the purposes for which they were acquired only considering the minimum requirements contained in the RFP (see **attachments ID and IF** for Evertec & Computerlink Proposals Submittal Revised Forms II).

PRDE also disagrees with the first and second paragraphs of page 12 of the aforementioned report, which established the following:

"The chief information officer, who is also the owner of the Restart Devices Initiative, confirmed that the additional costs we identified as acquisition costs (aside from the costs for the laptops and tablet computers themselves) are for items that were included in the Request for Proposals and in the contracts as necessary items to make the laptops and tablet computers usable for their intended purposes.

We performed additional analysis and determined that the total \$90.5 million in acquisition costs break down to a per unit acquisition cost for the laptops and tablet computers as follows:

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<sup>11</sup> 2020-AF0102, Evertec Contract page 7. / 2020-AF0101, Computerlink Contract page 11.

\$551 for each student laptop, \$551 for each student tablet computer, and nearly \$643 for each teacher laptop. Tables 3, 4, and 5 contain the details of the breakdown.”

In relation to the Chief Information Officer's statement while being interviewed, she was referring to the items included in the RFP and contract for this initiative being items needed to fully implement the project in the best way possible, and to protect the investment made in the laptops and tablets. Her expressions, not necessarily indicate that such items were needed to make these devices *usable* for the purpose for which they were acquired. The purpose of the response provided was to confirm that the additional cost incurred was necessary and allowable, because these additional items would be intended to protect the investment made in the laptops and tablets, among other uses.

Below you will find images of the OIG drafted report, for purposes of the discussion, specifically in regard to the arguments related to the second paragraph on page 12, Tables 3, 4 and 5:

**Table 3. Acquisition Costs Related to Student Laptops**

Item Description	Quantity	Unit Cost	Total Cost	Cost Incorrectly Included in the Cost Base of the Indirect Cost Calculation
<b>Student Laptops</b>	<b>111,330</b>	<b>\$440</b>	<b>\$48,985,200</b>	<b>\$48,985,200</b>
Image Configuration and Etching	111,330	\$50	\$5,566,500	0
Data Security Software and Installation	111,330	\$61.25	\$6,818,962	0
<b>Total Capitalizable Value</b>	<b>-</b>	<b>\$551.25</b>	<b>\$61,370,662</b>	<b>\$48,985,200</b>

The PRDE contends that the cost of acquiring the student laptops was correctly included in the Cost Base of the Indirect Cost Calculation, because the laptops purchased for the students, without considering the professional services of image configuration and etching and data security software and installation, were *usable* for purposes that were acquired as defined by 2 CFR 200.1. Therefore, the total capitalizable for the acquisition of student laptops was \$440.00, which is below the \$500 established by the public policy of the Government of Puerto Rico in its definition of fixed assets, previously mentioned in this document.



**Table 4. Acquisition Costs Related to Student Tablet Computers**

Item Description	Quantity	Unit Cost	Total Cost	Cost Incorrectly Included in the Cost Base of the Indirect Cost Calculation
<b>Student Tablet Computers</b>	18,000	\$475	\$8,550,000	\$8,550,000
Image Configuration and Etching	18,000	\$50	\$900,000	0
Data Security Software and Installation	18,000	\$10	\$180,000	0
Headset and Microphone	18,000	\$16	\$288,000	\$288,000
<b>Total Capitalizable Value</b>	-	<b>\$551</b>	<b>\$9,918,000</b>	<b>\$8,838,000</b>

The PRDE also contends that the cost of acquiring the tablets for students was correctly included in the Cost Base of the Indirect Cost Calculation, because the tablets purchased for the students, without considering the professional services of image configuration and etching and data security software and installation, were *usable* for purposes that were acquired as defined by 2 CFR 200.1. Therefore, the total capitalizable for the acquisition of the student tablets was \$475.00, which is below the \$500 established by the public policy of the Government of Puerto Rico in its definition of fixed assets, previously mentioned in this narrative. On the other hand, the headset and microphone were an item acquired with the purpose of providing additional functionality to students so that they could communicate more easily in a virtual classroom. Consequently, the headset and microphone are not necessary to make the tablet *usable* for the purposes for which it was acquired. The tablet alone allowed students to access instructional material and access virtual classes through the sound equipment and microphone that such devices have integrated. For this reason, the cost of headsets and microphones was correctly included in the Cost Base of the Indirect Cost Calculation, as an independent cost.

**Table 5. Acquisition Costs Related to Teacher Laptops**

Item Description	Quantity	Unit Cost	Total Cost	Cost Incorrectly Included in the Cost Base of the Indirect Cost Calculation
<b>Teacher Laptops</b>	30,000	\$427.99	\$12,839,700	\$12,839,700
<b>Cover and USB Dongle Adapter</b>	30,000	\$53.19	\$1,595,700	\$1,595,700
<b>Image Configuration and Etching</b>	30,000	\$69.14	\$2,074,200	\$2,074,200
<b>Data Security Software and Installation</b>	30,000	\$92.67	\$2,780,100	0
<b>Total Capitalizable Value</b>	-	<b>\$642.99</b>	<b>\$19,289,700</b>	<b>\$16,509,600</b>

The PRDE contends that the cost of acquiring the laptops for teachers was correctly included in the Cost Base of the Indirect Cost Calculation, because the laptops purchased for the teachers, without considering the professional services of image configuration and etching; data security software and installation; and without the optional accessories of cover and USB dongle adapter, were *usable* for the purposes for which they were acquired according to the definition of acquisition cost in 2 CFR 200.1. Therefore, the total capitalizable for the acquisition of teachers' laptops was \$427.99, which is below the \$500 established by the public policy of the Government of Puerto Rico in its definition of fixed assets, previously mentioned in this document. The cover and USB dongle adapter were items purchased with the purpose of protecting the investment made, and to provide additional functionality to the teachers so that the computer could be easily connected to a larger monitor and to have an external port to connect other devices. Therefore, these optional accessories are not necessary to make the teacher's laptop *usable* for the purposes for which it was acquired. The laptop alone allowed teachers to use it for the purposes for which it was acquired. For this reason, the cost of the cover and USB dongle adapter was correctly included in the Cost Base of the Indirect Cost Calculation, as an independent cost.

The PRDE does agree with what is indicated in footnote number 16 on page 11 of the aforementioned report, which ascertained the following:

"The Puerto Rico DOE used two different accounting codes to account for the same type of expense (image configuration and etching costs). As a result, when calculating indirect costs, the image configuration and etching costs related to teacher laptops were included in the direct cost base (see Table 1) and the image configuration and etching costs related to student laptops and tablet computers were not included (see Table 2)."

The PRDE acknowledges that due to a human error, it incorrectly classified the same service under two different accounting codes to account for the same type of expense (image configuration and etching costs). The accounting code that should have been used for both expenses was E1260, so the total of \$2,074,200 of the cost of the image configuration and etching of the teacher laptops was incorrectly included in the Cost Base of the Indirect Cost Calculation. This error was made because at the time of drafting the contract, the proposal of the supplier Evertec was used by the legal team to ascertain that all essential information was included in the contract. Inadvertently, PRDE then included the information as describe in the said proposal.

PRDE disagrees with the third paragraph on page 15 of the report, with regard to the following:

"The Puerto Rico DOE charged unallowable indirect costs to the Restart program because it did not ensure that procurement office staff complied with article XIII.A of the Puerto Rico Department of Treasury's Regulation 11, "Basic Rules for the Control and Accounting of Fixed Assets" (December 2005), which states that the Puerto Rico DOE's Purchasing Officer should assess whether equipment purchases should be capitalized before creating the purchase order in its financial information system."

The procurement office officials did not fail to comply with article XIII.A of the Puerto Rico Department of Treasury's Regulation 11, "Basic Rules for the Control and Accounting of Fixed Assets" (December 2005), since the findings made are related to expenditures of professional services and optional accessories that do not fall within the costs taken into consideration in article XIII.A., which are the sale price minus discounts, plus transportation, delivery and installation costs, and the payment of taxes. PRDE emphasizes that the purchased laptops and tablets were *usable* for the purposes they were acquired without the professional services of image configuration and etching; data security software and installation; and without the optional accessories of cover, USB dongle adapter and headset and microphone.

PRDE also deviates from what is specified in the following paragraph on page 13 of the report:

“Because the acquisition cost per unit exceeded \$500 for the laptops and tablet computers, in accordance with the capitalization policy the Puerto Rico DOE was required to follow, the entire \$90.5 million in acquisition costs related to the laptops and tablet computers should have been capitalized, and none of it should have been included in the direct cost base used to calculate indirect costs that were charged to the Restart program. However, as our review revealed, \$74.3 million of the \$90.5 million in acquisition costs related to the laptops and tablet computers was incorrectly included in the direct cost base calculation applicable to the indirect cost journal entry we sampled. Additionally, because indirect costs accumulate and allocation calculations are updated each time an indirect cost journal entry is made, we reviewed supporting documentation for the last journal entry in our audit period that charged indirect costs to the Restart program (journal entry dated August 9, 2022) and we determined that the \$74.3 millions of capitalizable equipment was still being included in the direct cost base of the indirect cost calculation. The 3.3 percent indirect cost rate that the Puerto Rico DOE applied to the \$74.3 million in that last indirect cost calculation revealed that a total of \$2.5 million in unallowable indirect costs had been charged to the Restart program during our audit period. Therefore, of the total \$8.6 million in indirect costs that the Puerto Rico DOE charged to the Restart program during our audit period, \$2.5 millions of it was unallowable because the \$74.3 millions of capitalizable equipment should not have been included in the direct cost base calculation.”

As discussed, and established in this response, the cost per unit did not exceed \$500.00 for any of the devices, when taking into consideration the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it *usable* for the purpose for which it is acquired. The purchased laptops and tablets were *usable* for the purposes they were acquired without the need for the professional services and optional accessories mentioned above in this reply.

Finally, for Finding 1, the PRDE is not in agreement with the second paragraph on page 16 of the aforementioned report, which states the following:

"Because the Puerto Rico DOE did not consider the entire acquisition cost of the laptops and tablet computers (which exceeded \$500 for each device), and only considered the unit cost of the laptops and tablet computers themselves (which was under the \$500 capitalization threshold), the Puerto Rico DOE classified the equipment and supplementary costs as noncapitalizable and incorrectly included them as part of the direct cost base used to calculate the amount of indirect costs to charge to the Restart program. As a result, the Puerto Rico DOE used \$2.5 millions of Restart program funds on unallowable indirect costs, meaning that these funds were not available for use on other allowable activities that would have assisted in restarting school operations, reenrolling students, and reopening public and nonpublic elementary and secondary schools affected by the covered disasters."

The PRDE correctly considered the unit cost for the laptops and tablets, as well as the acquisition cost, since these were *usable* for the purposes for which they were acquired, without considering the professional services of image configuration and etching; the data security software and installation; and without the optional accessories of cover, USB dongle adapter and headset and microphone. Therefore, the PRDE only incorrectly classified two accounting codes to account for the same type of expense (image configuration and etching costs). The accounting code that should have been used for both expenses was E1260, so the total of \$2,074,200 of the cost of the image configuration and etching of the teacher laptops was incorrectly included in the Cost Base of the Indirect Cost Calculation. This human error was caused inadvertently and without the intention of affecting the calculation of indirect costs. When taking into consideration the total of \$2,074,200 of the cost of image configuration and etching of the teacher laptops, the PRDE only claimed a total of \$68,448.60 incorrectly in the calculation of indirect costs. Thus, PRDE will diligently subtract the said amount on the following claim of indirect costs to make sure that the calculation is accurate.

Corrective actions proposed by the PRDE:

- PRDE is going to reclassify the expense of the image configuration and etching of laptops for teachers, so that it is assigned to the correct accounting code, E1260. In turn, the PRDE will adjust the amount of

- \$68,448.60 that was claimed by mistake, in the next claim of indirect costs to be made for the RESTART program.
- In order to avoid future errors regarding the classification of accounting codes to be assigned to any purchase, the PRDE proposes to carry out training over this topic to the appropriate staff and issue a communication to all personnel immersed in the process of purchasing equipment, to use as guidance when drafting documents and or performing activities and procurement related to federal programs.

**Audit Finding #2: The Puerto Rico DOE Needs to Improve Its Management of Technology Equipment Acquired with Restart Program Funds**  
**PRDE Response:**

After Hurricanes Irma and Maria, the PRDE determined it was necessary to acquire mobile devices for students and teachers to continue mitigating the negative effects the disasters had on the learning / teaching experiences. The purchase of the equipment was delayed for two years due to court proceedings, including an appeal filed with the Puerto Rico Supreme Court, among other events. As a result, the PRDE was not able to purchase and distribute the devices until 2020, just as the Covid-19 pandemic disseminated worldwide. This health event caused enormous obstacles for the planning, purchase, distribution, and documentation of the equipment initiative, over many months.

The PRDE's original plan was to provide a number of mobile devices to each school, to be used exclusively by students during class. The PRDE did not intend for these devices to be used outside of school grounds or to be handed to students to take home. However, the Covid-19 pandemic made it imperative for students to have and use the devices acquired at home for remote classes, as government buildings were closed to slow the spread of the virus.

The transition from school devices to home devices created a number of distribution and tracking issues that the PRDE is still addressing, since the Agency didn't have much time to develop and test a plan before the implementation. In light of the urgent need to get the equipment to students and teachers, the PRDE quickly developed the *Horizon* platform to register and track the mobile devices. The system implementation was the following:

1. Each vendor was provided a list of schools with a quantity of devices to be distributed, based on the enrollment registered in the Student Information System (SIS) at that time.

2. The vendors created a file and registered information for each device (i.e., serial number, asset tag), along with the information for each assigned school, which was then uploaded into *Horizon*.
3. After registration, the equipment was delivered to the Educational Regional Offices (ORE). The ORE's staff were in charge of distributing the devices to each school in their respective regions.
4. The process for teacher devices was similar, except that the equipment was delivered directly to the teachers at the Regional Offices.
5. As devices were hand delivered to students and teachers, each device was to be registered in *Horizon* as assigned to the particular individual receiving the equipment.

After the devices were registered and distributed, the PRDE developed the "Mobile Devices Management Guide" to establish a process on how to link a device to a student or teacher, to make changes in device assignments, as well as report lost or stolen devices. This guide includes detailed instructions and guidelines for staff, teachers, students and parents on the appropriate care and use of each device, and clearly establishes the need and process for all members of the education community to be proactive in safeguarding and documenting changes or issues pertaining to, the devices. These activities showed that PRDE directed great efforts to establish controls to protect the equipment acquired with federal funds.

However, PRDE faced many challenges when purchasing and distributing 111,330 student laptops, 18,000 student iPads, 30,000 teacher laptops and 4,311 mobile device carts funded under the Restart program in the middle of a pandemic. Of these issues, the biggest challenge the PRDE has faced has been keeping track of the devices used by teachers and students outside of school premises. Even after the *Horizon* platform was built and in operation, the PRDE has continue to encounter defies in relation to keeping track of all the devices, despite the process put in place to facilitate the tracking and management of the devices.

Under the established process, the principal at each school is the designated custodian of devices assigned to their students, with the principal being responsible for updating the *Horizon* platform regularly (e.g., change in assigned students, lost or stolen equipment). Unfortunately, the updating has not always worked as planned, and some required updates have not been recorded. The same problem has occurred with the teacher devices, except in

that case, the designated custodian would be the teacher, and the school or regional office would be responsible for updating the platform. Making sure these changes are tracked within the platform has been extremely difficult, given the fact that the PRDE has around 900 locations, between schools, regional offices and other associated buildings.

The PRDE recognizes and accepts the challenges confronted with tracking devices and is working diligently to develop and implement a better system to keep track of all its equipment, and to ensure the proper use, care and safekeeping of all the assets. We acknowledge that the *Horizon* platform was not the ideal tool when created, for such a huge undertaking, however it was PRDE's best choice at that historic time. However, the PRDE has continued working on the system to expand and improve its functionalities in a way that better meets the current needs of effective device management. Such an example would be the use of the Absolute tracking system to identify a user's device and update the platform.

After careful consideration, In the following pages, PRDE's presents additional responses to the recommendations made by the OIG regarding this matter.

**OIG RECOMMENDATION 2.1** Identify the schools in need of technology equipment and redistribute the 215 technology equipment devices as appropriate.

**PRDE RESPONSE:** This information was confirmed by personnel in the Ponce Regional Office, who also explained that they were able to identify schools with needs and approximately 90 devices are in the process of being delivered where required. The PRDE will continue working with the said regional office to identify existing needs and ensure that the remaining devices are distributed to those students and teacher as quickly as possible.

It has been reported that more than 200,000 people permanently left Puerto Rico since the beginning of the pandemic, and that during that period, there was a considerable drop in student enrollment. Therefore, it is important to mention that although these 215 devices may now be considered "surplus," the quantity of devices originally purchased directly corresponded to the PRDE student enrollment and teacher needs at the specific time of the acquisition.

In the case of the 215 devices acquired for the music school in Ponce, after it was determined that the school did not need all of the purchased devices, the school was instructed to keep the devices in the Regional Office to guarantee their safekeeping until assigned. It is also important to note that the total enrollment reduction was not fully reflected until after the devices had been



purchased and accepted by the PRDE, and returning the equipment was not an available option at that time. In fact, the only option for the PRDE at that time was to secure and protect the equipment until appropriate users could be identified. Despite the fact that fewer students and teachers were then part of the school system than at the time the equipment was originally ordered, we are pleased that every student and teacher who needed a device was able to acquire one through the main office or regional offices as a result of the Restart funding and processes put in place.

**OIG RECOMMENDATION 2.2** Work with school staff and teachers to find the 22 technology equipment devices that are missing and/or follow the proper guidance and report the missing equipment to the authorities if necessary.

**PRDE RESPONSE:** The PRDE was provided with the list of 22 devices, and is currently working on locating the devices, updating the designation platform and determining how this process can be improved to prevent the same issue from occurring in the future, following equipment processes guidance.

**OIG RECOMMENDATION 2.3** Review and update written policies and procedures for the management of fixed assets and mobile equipment devices with guidance for Educational Region offices and schools to ensure that surplus technology equipment that could still be used for their intended purpose are properly managed.

**PRDE RESPONSE:** The PRDE understands the need to continue updating the existing guidelines and update existing procedures to improve effectiveness. On July 13, 2023, the Department published a Request for Proposals (RFP) requesting services for the "REVIEW, UPDATE AND CREATION OF POLICIES AND PROCEDURES OF THE OFFICE OF INFORMATION SYSTEMS AND TECHNOLOGICAL SUPPORT FOR TEACHING". The PRDE is currently in the process of signing a contract with the awarded vendor to start working on preparing new documents and processes that meet the current needs of the agency and to integrate part of the OIG recommendations. In the meantime, the PRDE has established more constant normative communications regarding the devices, such as sharing the Management Guide more often and publishing the warranty processes.

In this regard, although the "Procedure for the Control and Accounting of the Property of the Department of Education, June 2006" and the "Mobile Devices Management Guide, July 2022" may have not provided sufficient guidance for the management of surplus equipment by the Regional Offices, the PRDE has repeated instructions that these devices must be regularly distributed to the

schools as and when needed, with the latest memorandum being issued in March 20, 2023 (**see attachment 2A**).

OIG RECOMMENDATION 2.4 Perform a comprehensive physical inventory of technology equipment devices purchased with Restart program funds, and ensure that (1) the devices are being used for their intended purpose, (2) appropriate guidance is followed to manage any surplus and missing equipment, and (3) the equipment inventory system and pertinent inventory records are updated accordingly.

**PRDE RESPONSE:** The PRDE understands the need to track and locate missing devices. To this end, the PRDE Property Division is currently conducting an inventory in every school. On July 23, 2023, the PRDE issued an official communication to every school requesting they register and update the information of active inventory in every PRDE location. When collecting information during the inventory, personnel will be able to do the following:

- Update the location of each piece of equipment;
- Identify and update the current custodian and building assigned to each device;
- Identify the devices that need to be decommissioned; and
- Add any other equipment that is not currently registered on the platform.

Along with the instruction communication, the PRDE also distributed the "User Manual for the Physical Inventory Management" (**see memo as attachment 2B**). The deadline for all inventories to be completed was September 30, 2023. However, since some schools are still working on their inventory, the PRDE is allowing them additional time to finish collecting and inputting their data. Once the inventory information is updated and reported in the system, the PRDE will have a more assertive knowledge and record of the location and use of all devices acquired with Restart funds.

PRDE continues reviewing and revising the device management guidelines and procedures for the entire education community, as well as improving the device management platform to keep more effective track of the devices. The PRDE understands that the accurate tracking, maintenance and safekeeping of these assets is extremely important and the Agency is committed to ensuring that the devices are being used for their intended purpose.

**Audit Finding #3: The Puerto Rico DOE Made Unsupported Performance Bonus Payments to Teachers**

**PRDE Response:**

According to Finding #3, PRDE was unable to provide any supporting evidence for some of the payments made to teachers using funds from the Immediate Aid to Restart School Operations program. Out of a random statistical sample of 87 payroll payments funded with Restart funds, the Puerto Rico DOE could not provide documentation to support that 4 payments were made to eligible teachers. The report indicates that these payments were performance bonus payments that were categorized as payroll payments in the Puerto Rico DOE's accounting system.

The Puerto Rico PRDE has made a diligent effort to locate the required documentation to support the payments in question. We have obtained the necessary documentation and can confirm that part of the payments of the said bonus were paid accurately, while other portion need corrective actions from PRDE. Below PRDE explains these specific cases.

After the hurricanes Irma and Maria on 2017, PRDE implemented several initiatives to meet needs that were direct consequences of the mentioned natural disasters, and some of them included the payment of bonuses to teachers and other school personnel. In addition to the three performance criteria mentioned in the report, the program also offered additional incentives to reward performance and the completion of certain projects. These additional incentives include but are not limited to a Performance Bonus for the accomplishment of Innovative Projects that Contribute to Academic Achievement in the different regions.

**Performance Bonus for Innovative Projects that Contribute to Academic Achievement**

The Undersecretary of Academic Affairs requested funds of the Restart program for the implementation of the work plan titled: "Performance Bonus for Innovative Projects that Contribute to the Academic Achievement".

After hurricanes Irma and Maria impacted Puerto Rico in 2017, the access to basic resources such as water, power, combustible and food, among others, made reopening schools and resuming teaching a great challenge mainly in School Years (SYs) 2017-2018 and 2018-2019. Despite these challenges, some teachers demonstrated a high level of compromise in their work by the creation and implementation of innovative projects in their schools. These

projects aimed to reinforce the academic performance of their students that needed additional support due to the disruptive events; helping them to develop the necessary skills to succeed academically even during these difficult times. Furthermore, the teachers' hard work played a significant role in reopening schools, returning to normal operations, re-enrollment of students, recuperation in the aftermath and as socio-emotional support for the school communities.

The approved work plan was driven to provide eligible teachers a bonus of \$1,500.00, once Academic Affairs evaluated and approved the innovative projects presented. After Academic Affairs evaluated and certified the eligible teachers, the bonus was paid. PRDE believes that the extra activities executed by the teachers were instrumental for the educational services provided during the historic times experienced after the natural disasters. To add to the mentioned benefits, PRDE had the need to retain the school personnel, particularly teachers, to ensure the re-starting process at that certain moment since a great part of the population was moving to the states.

Please refer to **attachment 3A** to review the official communication from the Undersecretary of Academic Affairs including the purpose and detailed information regarding this project. For reference, please see **attachment 3B** for the Approval of Fund Request that refers to an incentive of \$2,000 but should establish \$1,500.00 per teacher that complies with the project requirements. However, PRDE paid below the amount of incentive documented.

**Evidence for part of the unsupported payments**

To protect the privacy of personal identification information of the employees which bonus payments were classified as exceptions in this Finding, PRDE will refer to the initials of their names as follows: first letter of their name, first letter of the first last name and first letter of the second last name (in that order) when making reference to them.

One of the four unsupported performance bonus payments identified related to employee [REDACTED] (is related to the initiative named Innovative Project. After various interviews to PRDE personnel, including the Payroll Office staff, we obtained the evidence of the communication where the lead of the initiative asked the Payroll Office to process the said bonus with the corresponding attachments. Please refer to **attachment 3C** for the said communication; and **attachment 3D**, for a letter signed by the Undersecretary of Academic Affairs which includes a list of teachers and their innovative projects (that was attached to the mentioned communication). The list consists of the region,

school name, school code, teacher name and subject of the project. The teacher in question (████) is included in the list and is eligible for a bonus of \$1,500. Additionally, PRDE has included as **attachment 3E**, with the final list of eligible staff that was sent to the Payroll Office to process the related bonus, as PRDE procedures establish.

**Coronavirus Aid, Relief and Economic Security Act (CARES) Didactic (Educational) Modules' Initiative**

PRDE evaluated the other three cases of payments of bonuses to teachers █████, █████ and █████ After interviews and collection of evidences, PRDE concluded that these three (3) payments should have been paid with CARES grant.

The CARES Act, as well as the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) and the American Rescue Plan (ARP), provided emergency assistance to various entities to respond to the Coronavirus (COVID-19) pandemic from the year 2020 on, due to the declaration of emergency. These federal laws authorized the Elementary and Secondary School Emergency Relief Funds (ESSER I, II and III), to provide assistance to PRDE, as many other jurisdictions. The goal was to target specifically the challenges that the pandemic brought to educational agencies, including expenditures related that were made back to March 13, 2020 (or pre-award costs).

As part of the initiatives that PRDE carried out with this funding, there is one dedicated to pay additional compensation to teachers who participated in creating and implementing Educational Modules. These modules were indispensable when PRDE was trying to provide distance education to students enrolled in public schools around Puerto Rico. School closures and other health preventive measures inhibited PRDE from providing in-person educational and other related services. Therefore, PRDE determined that to continue to support student's academic development, it needed to create academic modules in all subject areas, as a form of remote education.

As part of this initiative, the three mentioned teachers provided their support by creating these academic tools, that helped the Agency in the continuation of services when facing the tough scenario of the global health emergency.

Please refer to **attachment 3F** for the Approval of Fund Request – Development of didactic modules; and **attachment 3G** for the list of teachers who participated in the said modules' development, therefore, eligible for an incentive of \$2,000.00. These teachers contributed specifically to the Physical Education module and received a score of 35 points as per the rubric used to

evaluate the modules, passing the said evaluation. Please refer to the **attachment 3H** for the rubric details. The teachers are all included in the list and are eligible for this bonus.

PRDE committed a human inadvertent error, when the lead of the initiative sent two lists of incentives for processing to the Payroll Office with its supporting documents, one related to the Restart program and one, of the CARES program. Please see **attachment 3I** for the referred document, where you will find two normative memorandums: "Fondos adicionales para bonificación" related to a Restart initiative and "Aprobación de fondos" related to the Modules CARES initiative). Attached to the email there were also two excel lists of eligible teachers, requesting the respective bonus to be processed and paid. Since the lists were not protected and included sensitive information, the Payroll Director of PRDE excluded them when he provided the said evidence. However, the evidence can be observed by scheduling a visit to the Payroll Office.

Therefore, when the documents for the "Departamento de Hacienda" (Hacienda) were prepared, the Restart accounting code was included for the payment of both incentives, instead of processing one under CARES. PRDE already started the process to adjust the entirety of these bonuses' expenses with ESSER program funds, liberating the Restart funds spent in the three (3) exception instances and for all other incentives associated to the Educational Modules.

Should you have any additional questions of concerns, please do not hesitate to contact PRDE at [lizardi\\_m@de.pr.gov](mailto:lizardi_m@de.pr.gov).

Respectfully,



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