

Universidad Carlos Albizu, Inc.

Uniform Administrative Requirements, Cost Principles,
and Audit Requirements for Federal Awards
Single Audit

June 30, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Universidad Carlos Albizu, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Universidad Carlos Albizu, Inc., (the University), which comprise the statements of financial position as of June 30, 2021 and 2020 and the related statements of activities and changes in net assets, and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Universidad Carlos Albizu, Inc. as of June 30, 2021 and 2020 and the related changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of financial responsibility, as required by the U.S. Department of Education (USDE) Student Assistance General Provisions, Federal Family Education Loan Program, and William D. Ford Federal Direct Loan Program (new borrower defense rules) and the accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Board of Trustees
Universidad Carlos Albizu, Inc.
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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2021, on our consideration of Universidad Carlos Albizu, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Universidad Carlos Albizu, Inc.'s internal control over financial reporting and compliance.



FPV & Galindez

San Juan, Puerto Rico
December 15, 2021
License No. LLC-322
Expires December 1, 2023

Universidad Carlos Albizu, Inc.

Statements of Financial Position

June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 5,546,790	\$ 3,644,977
Restricted cash	2,933,248	3,273,216
Accounts receivable, net	3,027,264	3,144,208
Prepaid expenses and other assets	1,309,210	974,199
Investments	22,125,170	18,640,150
Investments, restricted	1,266,770	1,251,163
Property and equipment, net	<u>23,084,115</u>	<u>23,470,169</u>
Total assets	<u><u>59,292,567</u></u>	<u><u>54,398,082</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	1,583,283	1,477,397
Accrued expenses	3,048,779	2,614,144
Deferred revenues	2,214,691	1,794,020
Long-term debt	<u>6,582,114</u>	<u>6,929,093</u>
Total liabilities	<u>13,428,867</u>	<u>12,814,654</u>
Net assets:		
Without donor restrictions	40,091,804	35,798,231
With donor restrictions	<u>5,771,896</u>	<u>5,785,197</u>
Total net assets	<u>45,863,700</u>	<u>41,583,428</u>
Total liabilities and net assets	<u><u>\$ 59,292,567</u></u>	<u><u>\$ 54,398,082</u></u>

See notes to financial statements

Universidad Carlos Albizu, Inc.
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Tuition and fees	\$ 30,162,511	\$ -	\$ 30,162,511
Less scholarships	<u>(725,546)</u>	<u>-</u>	<u>(725,546)</u>
Net tuition and fees	29,436,965	-	29,436,965
Contributions and contracts	1,790	-	1,790
Private gifts, grants and contracts	1,559,962	1,475,789	3,035,751
Other sources	6,583,384	-	6,583,384
Contributed services	320,182	-	320,182
Net assets released from restrictions	<u>1,504,997</u>	<u>(1,504,997)</u>	<u>-</u>
Total revenues, gains and other support	<u>39,407,280</u>	<u>(29,208)</u>	<u>39,378,072</u>
Educational and general expenses:			
Instruction	10,318,459	-	10,318,459
Research	335,435	-	335,435
Public services	9,117,492	-	9,117,492
Academic support	4,690,564	-	4,690,564
Student services	2,586,014	-	2,586,014
Institutional support	12,271,167	-	12,271,167
Contributed services	<u>320,182</u>	<u>-</u>	<u>320,182</u>
Total educational and general expenses	<u>39,639,313</u>	<u>-</u>	<u>39,639,313</u>
Loss before non-operating income (expenses)	<u>(232,033)</u>	<u>(29,208)</u>	<u>(261,241)</u>
Non-operating income (expenses):			
Interest and dividend income	448,264	15,210	463,474
Net realized and unrealized gain on investments	3,103,316	697	3,104,013
Rental income, net	1,265,883	-	1,265,883
Interest expense	<u>(291,857)</u>	<u>-</u>	<u>(291,857)</u>
Total non-operating income, net	<u>4,525,606</u>	<u>15,907</u>	<u>4,541,513</u>
Change in net assets	4,293,573	(13,301)	4,280,272
Net assets, beginning of year	<u>35,798,231</u>	<u>5,785,197</u>	<u>41,583,428</u>
Net assets, end of year	<u><u>\$ 40,091,804</u></u>	<u><u>\$ 5,771,896</u></u>	<u><u>\$ 45,863,700</u></u>

See notes to financial statements

Universidad Carlos Albizu, Inc.
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Tuition and fees	\$ 28,201,689	\$ -	\$ 28,201,689
Less scholarships	<u>(643,351)</u>	<u>-</u>	<u>(643,351)</u>
Net tuition and fees	27,558,338	-	27,558,338
Contributions and contracts	1,280	-	1,280
Private gifts, grants and contracts	1,358,936	1,300,416	2,659,352
Other sources	4,718,856	-	4,718,856
Contributed services	310,077	-	310,077
Net assets released from restrictions	<u>1,095,572</u>	<u>(1,095,572)</u>	<u>-</u>
Total revenues, gains and other support	<u>35,043,059</u>	<u>204,844</u>	<u>35,247,903</u>
Educational and general expenses:			
Instruction	9,641,492	-	9,641,492
Research	352,315	-	352,315
Public services	6,397,406	-	6,397,406
Academic support	4,752,027	-	4,752,027
Student services	2,134,972	-	2,134,972
Institutional support	11,626,021	-	11,626,021
Contributed services	<u>310,077</u>	<u>-</u>	<u>310,077</u>
Total educational and general expenses	<u>35,214,310</u>	<u>-</u>	<u>35,214,310</u>
Income (loss) before non-operating income (expenses)	<u>(171,251)</u>	<u>204,844</u>	<u>33,593</u>
Non-operating income (expenses):			
Unrealized gain on fair value of derivative financial instrument	15,852	-	15,852
Interest and dividend income	514,591	23,403	537,994
Net realized and unrealized gain on investments	97,575	15,325	112,900
Rental income, net	1,240,181	-	1,240,181
Interest expense	<u>(313,346)</u>	<u>-</u>	<u>(313,346)</u>
Total non-operating income, net	<u>1,554,853</u>	<u>38,728</u>	<u>1,593,581</u>
Change in net assets	1,383,602	243,572	1,627,174
Net assets, beginning of year	<u>34,414,629</u>	<u>5,541,625</u>	<u>39,956,254</u>
Net assets, end of year	<u>\$ 35,798,231</u>	<u>\$ 5,785,197</u>	<u>\$ 41,583,428</u>

See notes to financial statements

Universidad Carlos Albizu, Inc.

Statements of Cash Flows

For the Years Ended June 30, 2021 and 2020

	2021	2020
	<u>2021</u>	<u>2020</u>
Change in net assets	\$ 4,280,272	\$ 1,627,174
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	946,638	786,936
Provision for bad debts	-	318,824
Net realized and unrealized gain on investments	(3,104,013)	(112,900)
Net realized and unrealized gain on derivative financial instrument	-	(15,852)
Amortization of debt issuance costs	9,004	86,086
Changes in operating assets and liabilities:		
Accounts receivable	116,944	(1,021,281)
Prepaid expenses and other assets	(335,011)	(75,214)
Accounts payable	105,886	280,903
Accrued expenses	434,635	(4,487)
Deferred revenues	420,671	(18,344)
Total adjustments	<u>(1,405,246)</u>	<u>224,671</u>
Net cash provided by operating activities	<u>2,875,026</u>	<u>1,851,845</u>
Cash flows from investing activities:		
Acquisitions of property and equipment	(560,584)	(939,363)
Acquisitions of investments	(396,614)	-
Proceeds from sale and redemption of investments	<u>-</u>	<u>1,717,172</u>
Net cash (used in) provided by investing activities	<u>(957,198)</u>	<u>777,809</u>
Cash flows from financing activities:		
Payments of long-term debt	(355,983)	(433,048)
Proceeds from long-term debt	<u>-</u>	<u>141,037</u>
Net cash used in financing activities	<u>(355,983)</u>	<u>(292,011)</u>
Net change in cash, cash equivalents and restricted cash	1,561,845	2,337,643
Cash, cash equivalents and restricted cash, beginning of year	<u>6,918,193</u>	<u>4,580,550</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 8,480,038</u>	<u>\$ 6,918,193</u>

(Continues)

Universidad Carlos Albizu, Inc.

Statements of Cash Flows (Continued)

For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of cash and cash equivalents with restricted cash:		
Cash and cash equivalents	\$ 5,546,790	\$ 3,644,977
Restricted cash - federal and state grants with donor imposed stipulations	<u>2,933,248</u>	<u>3,273,216</u>
Total cash, cash equivalents and restricted cash shown in the statements of cash flows	<u>\$ 8,480,038</u>	<u>\$ 6,918,193</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 291,857</u>	<u>\$ 313,346</u>
Supplemental disclosure of non-cash investing and financing activities:		
Repayment of derivative financial instrument with refinancing of long-term debt	<u>\$ -</u>	<u>\$ 638,600</u>
Debt issuance costs financed with refinancing of long-term debt	<u>\$ -</u>	<u>\$ 90,047</u>
Repayment of long-term debt through refinancing	<u>\$ -</u>	<u>\$ 6,430,315</u>

See notes to financial statements

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements

June 30, 2021 and 2020

Note 1- Nature of business

Organization

Universidad Carlos Albizu, Inc., (the University) is a not-for-profit institution incorporated under the laws of the Commonwealth of Puerto Rico (the Commonwealth). The University offers PhD, master and bachelor degrees, which include among others, psychology, and speech and language therapy. The University operates two campuses located in San Juan, Puerto Rico and Miami, Florida, respectively, and a Learning Center in Mayagüez, Puerto Rico.

Note 2 - Summary of significant accounting policies

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP).

Basis of presentation

The accompanying financial statements have been prepared in accordance with Financial Accounting Standards Board (FASB) Topic 958, which requires that all not-for-profit organizations provide a statement of financial position, a statement of activities and changes in net assets, and a statement of cash flows. It also requires presentation of net assets in the statement of financial position based on the existence of donor-imposed restrictions, as net assets with donor restrictions and net assets without donor restrictions, and that the change of the amounts in each of those classifications be presented in the statement of activities and changes in net assets.

Accordingly, the net assets of the University are classified and reported as follows:

- Net assets with donor restrictions – Net assets subject to donor-imposed stipulations.
- Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

Revenues are reported as increases in net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) is reported as reclassifications between the applicable classes of net assets.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (continued)

June 30, 2021 and 2020

Note 2 - Summary of significant accounting policies - (continued)

Basis of presentation – (continued)

ASC 958 also requires not-for-profit entities to disclose expenses by both their natural classification and their functional classification, and the allocation methods used to allocate costs. In addition, ASC 958 requires the disclosure of quantitative and qualitative information regarding liquidity and availability of resources.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

For cash flow purposes, cash and cash equivalents include cash on hand, bank deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Restricted cash

Restricted cash consists of the undisbursed balance of federal and state grants with donor-imposed stipulations. These balances are restricted until the applicable contractual provisions are satisfied.

Accounts receivable

Students and other receivables are reported at their estimated net realizable value. The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of the collectability, aging of the receivables, prior credit loss experience and other relevant factors. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the outstanding receivables and the related allowance may change as a result of future developments. Accounts receivable write-offs and recoveries are charged to the allowance for doubtful accounts.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (continued)

June 30, 2021 and 2020

Note 2 - Summary of significant accounting policies - (continued)

Investments

The University accounts for its investments under the provisions of Accounting Standards Codification (ASC) No. 958-320, *Investments in Debt and Equity Securities, Accounting for Certain Investments Held by Non-for-Profit Organizations*. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statement of activities and changes in net assets.

Property and equipment

Property and equipment are recorded at cost, or if donated, at fair value when received. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets, ranging from 3 to 39 years. Equipment under capital leases, if any, is amortized over the estimated useful life of the respective assets or lease term, whichever is shorter.

Maintenance and repairs, if any, are charged to operations as incurred. Major renewals and improvements are capitalized. Construction in progress is carried in a temporary account until the related project is completed, at which time, a transfer is made to the corresponding property and equipment account.

Impairment of long-lived assets

In accordance with the provisions of the *Accounting for the Impairment or Disposal of Long-Lived Assets Topic* of the FASB Accounting Standards Codification, the University periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. No impairment charges were recorded during the years ended June 30, 2021 and 2020.

Income taxes

The University is exempt from the payment of income taxes and other state and municipal taxes under the provisions of the Puerto Rico Income Tax Code. The University is also exempt from federal income taxes under the U.S. Internal Revenue Code.

Notes to the Financial Statements – (continued)

June 30, 2021 and 2020

Note 2 - Summary of significant accounting policies - (continued)

Recently adopted accounting principle

Effective July 1, 2020, the University adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 606, *Revenue from Contracts with Customers* applying the modified retrospective method to all contracts existing on July 1, 2020. ASC 606 requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASC 606 establishes a five-step approach for the recognition of revenue, as follows: (1) identify the contracts with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation.

The University's revenue is derived primarily from academic programs taught to students. Tuition and related fees are recognized as revenue over time through the academic term or program for which it is earned. Non-tuition related revenue is recognized at a point in time when the services are performed or goods are delivered.

Performance obligations are determined based on the nature of the services provided by the University. Revenue from performance obligations satisfied over time consists of tuition and fees, which are recognized based on actual educational services charged to students in relation to total expected charges for services anticipated to be provided during the period in which the course sessions are held. The University believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. The University measures the performance obligation for tuition and fees from the start of the academic term corresponding to the courses taken by the students, based on the applicable academic calendar.

Revenue from performance obligations satisfied at a point in time is recognized when goods are sold, or services are provided, and the University does not believe it is required to provide additional goods or services related to that sale.

While ASC 606 is generally applied to an individual contract with a customer, as a practical expedient, the University may apply this guidance to a portfolio of contracts (or performance obligations) with similar characteristics. The University reasonably expects that the effects of applying this guidance to the portfolio would not differ materially from applying the guidance to the individual contracts (or performance obligations) within the portfolio. The University applied the portfolio approach for purposes of assessing collectability or estimating refunds for tuition and fees.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (continued)

June 30, 2021 and 2020

Note 2 - Summary of significant accounting policies - (continued)

Recently adopted accounting principle

Because all of the University's performance obligations relate to contracts with an expected duration of less than one year, the University has elected to apply the optional exemption provided by ASC 606-10-50-14(a), therefore, the University is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Such performance obligations consist primarily of deferred tuition. The performance obligations for these contracts are generally completed at the end of the corresponding academic term.

The University determines the transaction price for tuition and fees based on standard credit-hour rates for the corresponding educational services to be provided to students, reduced by scholarships, as applicable, and implicit price concessions. The University estimates implicit price concessions based on historical experience. Implicit price concessions for the years ended June 30, 2021 and 2020 were not significant and no cumulative effect for the change in accounting principle was recognized as of July 1, 2020. The University's transaction prices do not include variable consideration or a significant financing component and the University has determined that there are no specific factors that significantly affect the nature, amount, timing, and uncertainty of its revenues and cash flows.

The disaggregation of the University's revenues from contracts with customers for the years ended June 30, 2021 and 2020 consist of:

	<u>2021</u>	<u>2020</u>
Performance obligations satisfied over time:		
Net tuition and fees	\$ 29,436,965	\$ 27,558,338
Contributions and contracts	1,790	1,280
Private gifts, grants and contracts	3,035,751	2,659,352
Other sources	6,124,785	3,863,023
Contributed services	<u>320,182</u>	<u>310,077</u>
Total performance obligations satisfied over time	<u>38,919,473</u>	<u>34,392,070</u>
Performance obligations satisfied at a point in time:		
Other sources	<u>458,599</u>	<u>855,833</u>
Total revenues, gains and other support	<u>\$ 39,378,072</u>	<u>\$ 35,247,903</u>

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (continued)

June 30, 2021 and 2020

Note 2 - Summary of significant accounting policies - (continued)

Recently adopted accounting principle – (continued)

Non-operating income included in the statements of activities and changes in net assets for the years ended on June 30, 2021 and 2020 are excluded from the scope of Topic 606.

Contract liabilities as of June 30, 2021 and 2020 consist of:

	<u>2021</u>	<u>2020</u>
Deferred revenues	<u>\$ 2,214,691</u>	<u>\$ 1,794,020</u>

Government grants, contracts revenues and deferred revenues

Revenues from United States government and Commonwealth of Puerto Rico grants and contracts are recognized as revenue as it is earned through expenditures in accordance with the grant agreements. Funds received for student financial assistance (principally Pell Grant and Direct Loans) that are awarded directly to students are excluded from revenues and expenses. Unexpended grants and contracts received, if any, are recognized as deferred revenues until realization. As of June 30, 2021 and 2020, there were undistributed loans and other program funds amounting to \$2,933,248 and \$3,158,056, respectively, which are included as part of restricted cash in the accompanying statements of financial position. Also, as disclosed in Note 17, as of June 30, 2020, funds amounting to \$115,160 remained in restricted cash with an offsetting liability included in accrued expenses in the accompanying statement of financial position, for funds received and not yet disbursed, under the Higher Education Emergency Relief Fund.

Advertising

The University expenses the costs of all advertising campaigns and promotions as these are incurred. During the years ended June 30, 2021 and 2020, the advertising expense amounted to approximately \$2,223,000 and \$1,302,400, respectively.

Contributed services

The University accounts for contributed services pursuant to FASB ASC No. 958-605, *Not-for-Profit Entities-Revenue Recognition*, which requires that contributions of services be recognized if the services received either: create or enhance a nonfinancial asset or; they require specialized skills, provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributed services are reported as revenue and expenses in the period received.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (continued)

June 30, 2021 and 2020

Note 2 - Summary of significant accounting policies - (continued)

Debt issuance costs

Debt issuance costs are deferred and amortized, using the straight-line method, over the term of the related debt. The University follows the requirements of the FASB *Accounting Standards Update* No. 2015-03 *Interest- Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The standard update requires that debt issuance costs related to a recognized debt liability be presented in the statements of financial position as a direct deduction from that debt liability, consistent with the presentation of a debt discount. Also, amortization of debt issuance costs shall be reported as interest expense in the statements of activities and changes in net assets.

Functional expenses allocation

Expenses are reported in the statement of activities and changes in net assets in categories recommended by the National Association of College and University Business Officers (NACUBO). The University's primary program services are instruction and public service. Expenses reported as academic support and student services are incurred in support of the University's primary program. Institutional support mainly includes management and general expenses. Certain expenses, such as operation and maintenance of facilities, depreciation and interest costs, which are related to more than one category, are allocated among the appropriate categories based primarily on equipment usage and building square footage.

Recently adopted NACUBO Advisory Guidance

As fully disclosed in Note 15, pursuant to 34 CFR Parts 668, 682, and 685, on September 23, 2019, the U.S. Department of Education (USDE) finalized the Student Assistance General Provisions, Federal Family Education Loan Program, and William D. Ford Federal Direct Loan Program (new borrower defense rules). The University adopted the provisions of the new borrower defense rules effective for the year ended on June 30, 2020.

New accounting pronouncement

ASC No. 842, *Leases*, requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases, among other new requirements. Pursuant to the provisions of ASC 842, a lessee should recognize in the statement of financial position a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. ASC 842 also requires the segregation of right-of-use assets arising from operating and finance (capital) leases in the statement of financial position and significantly expands the disclosures related to leases in the financial statements. ASC 842 requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASC 842 is effective for the University on July 1, 2022, as delayed by ASU 2020-05.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (continued)

June 30, 2021 and 2020

Note 2 - Summary of significant accounting policies - (continued)

New accounting pronouncement – (continued)

The University is in the process of determining the impact that this new accounting pronouncement may have on its financial statements.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform them to the current year presentation.

Note 3 - Accounts receivable, net

Accounts receivable, net at June 30, 2021 and 2020 consist of the following:

	2021	2020
Students	\$ 1,849,108	\$ 1,793,799
Grants receivable	30,450	205,904
Contracts receivable	1,007,586	829,233
Other receivables	<u>1,129,610</u>	<u>1,036,794</u>
	4,016,754	3,865,730
Less allowance for doubtful accounts	<u>989,490</u>	<u>721,522</u>
Accounts receivable, net	<u>\$ 3,027,264</u>	<u>\$ 3,144,208</u>

During the years ended June 30, 2021 and 2020, the University accounted for \$342,977 and \$300,681, respectively, for accounts written-off. Also, during the years ended June 30, 2021 and 2020, the University accounted for recoveries of bad debts written-off in prior years amounting to \$27,679 and \$32,854, respectively.

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Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (continued)

June 30, 2021 and 2020

Note 4 - Investments

Investments at June 30, 2021 and 2020 consist of the following:

June 30, 2021

	Fair Market Value	Cost	Unrealized Gain (Loss)
U.S. Government and agencies obligations bonds	\$ 1,096,673	\$ 977,294	\$ 119,379
Corporate bonds	3,714,531	3,451,907	262,624
Mutual funds	11,074,696	8,327,342	2,747,354
Municipal bonds	4,209,172	4,464,067	(254,895)
Money market	<u>2,030,098</u>	<u>2,030,098</u>	<u>-</u>
Total	<u>\$ 22,125,170</u>	<u>\$ 19,250,708</u>	<u>\$ 2,874,462</u>

June 30, 2020

	Fair Market Value	Cost	Unrealized Gain (Loss)
U.S. Government and agencies obligations bonds	\$ 1,137,896	\$ 978,373	\$ 159,523
Corporate bonds	4,450,762	4,187,082	263,680
Mutual funds	7,836,127	8,129,680	(293,553)
Municipal bonds	4,403,659	4,660,621	(256,962)
Money market	<u>811,706</u>	<u>811,706</u>	<u>-</u>
Total	<u>\$ 18,640,150</u>	<u>\$ 18,767,462</u>	<u>\$ (127,312)</u>

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Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (continued)

June 30, 2021 and 2020

Note 4 - Investments – (continued)

Restricted investments at June 30, 2021 and 2020 consist of the following:

June 30, 2021

	Fair Market Value	Cost	Unrealized Gain (Loss)
Corporate bonds	\$ 562,764	\$ 557,146	\$ 5,618
Municipal bonds	146,473	139,473	7,000
U.S. Government and agencies obligations bonds	445	393	52
Money market	<u>557,088</u>	<u>557,088</u>	<u>-</u>
Total	<u>\$ 1,266,770</u>	<u>\$ 1,254,100</u>	<u>\$ 12,670</u>

June 30, 2020

	Fair Market Value	Cost	Unrealized Gain (Loss)
Corporate bonds	\$ 400,137	\$ 382,839	\$ 17,298
Municipal bonds	135,701	140,304	(4,603)
U.S. Government and agencies obligations bonds	556	500	56
Money market	<u>714,769</u>	<u>714,769</u>	<u>-</u>
Total	<u>\$ 1,251,163</u>	<u>\$ 1,238,412</u>	<u>\$ 12,751</u>

Investment return

Investment gain for the years ended June 30, 2021 and 2020, consists of the following:

	2021	2020
Interest and dividends	\$ 463,474	\$ 537,994
Net realized and unrealized gain on investments	<u>3,104,013</u>	<u>112,900</u>
Total investment gain, net	<u>\$ 3,567,487</u>	<u>\$ 650,894</u>

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (continued)

June 30, 2021 and 2020

Note 5 - Property and equipment

Property and equipment at June 30, 2021 and 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 7,200,000	\$ 7,200,000
Building and improvements	20,207,198	18,826,071
Equipment	3,639,725	2,901,069
Furniture and fixtures	359,125	343,779
Library books	88,327	88,327
Vehicles	210,231	210,231
Software	<u>1,940,001</u>	<u>1,870,823</u>
Total	33,644,607	31,440,300
Less accumulated depreciation and amortization	<u>(12,610,786)</u>	<u>(11,664,148)</u>
	21,033,821	19,776,152
Construction in progress	<u>2,050,294</u>	<u>3,694,017</u>
Property and equipment, net	<u>\$ 23,084,115</u>	<u>\$ 23,470,169</u>

The University is currently undergoing certain construction and improvement projects. As a part of such projects, the University has entered into certain agreements with various independent contractors which had remaining commitments of approximately \$198,000 at June 30, 2021.

There were no retirements of property and equipment for the years ended June 30, 2021 and 2020.

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Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (continued)

June 30, 2021 and 2020

Note 6 - Long-term debt

Long-term debt as of June 30, 2021 and 2020 consists of the following:

	<u>2021</u>	<u>2020</u>
Mortgage loan, due on September 30, 2029, payable to a financial institution in 120 fixed monthly installments of \$53,987 (based on a fifteen-year amortization term), including principal and interest, plus a final installment for the remaining outstanding principal. Interest is due monthly at a fixed rate of 3.94%. (a)	\$ 6,655,653	\$ 7,011,636
Less: unamortized debt issuance costs	<u>73,539</u>	<u>82,543</u>
Long-term debt, net	<u>\$ 6,582,114</u>	<u>\$ 6,929,093</u>

- (a) The proceeds of this loan were used to refinance existing indebtedness, fund associated existing swap breakage expenses, payoff swap agreement outstanding and fund other associated expenses of the transaction. The loan is collateralized with certain personal property, the land and building of the Miami campus, and assignment of rents. Also, the University has to comply with certain financial and operating covenants.

Future annual maturities under the mortgage loan at June 30, 2021, are as follows:

Years Ending <u>June 30,</u>	<u>Amount</u>
2022	\$ 388,876
2023	404,708
2024	421,184
2025	438,331
2026	456,177
Thereafter	<u>4,546,377</u>
Total	<u>\$ 6,655,653</u>

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (continued)

June 30, 2021 and 2020

Note 6 - Long-term debt – (continued)

Under the terms of the mortgage loans, the University is required to comply with certain financial and operating covenants. During the year ended June 30, 2021, the University was not in compliance with certain covenant. However, through a letter dated October 25, 2021, the bank waived the compliance with such covenant for the year ended on June 30, 2021. There can be no assurance that the University will not require additional waivers in the future or, if required, that the lender will grant them.

On November 4, 2021, the University executed a promissory note payable agreement with a commercial bank for the amount of \$3,160,000. The proceeds of the loan were used to purchase a building adjacent to the Miami Campus. The promissory note is payable in 180 monthly installments of \$23,489, including interest at a 3.99% fixed rate, commencing on December 4, 2021, through November 4, 2036.

Note 7 - Rental income

The University leases a portion of the Miami campus facilities to an unrelated third party under operating lease agreement, which expired on July 31, 2020. After the expiration date, the University has the option to renew the operating lease agreement for four additional terms of five years each. During July 2020, the University opted to renew the operating lease agreement for an additional term of five years commencing on August 2020.

Future minimum rentals under this operating lease as of June 30, 2021 are approximately as follows:

Year Ending June 30,	Amount
2022	\$ 1,653,150
2023	1,653,150
2024	1,653,150
2025	1,653,150
2026	137,763
Total	<u>\$ 6,750,363</u>

Rental income, before deducting related expenses of \$399,304 and \$365,006 for the years ended June 30, 2021 and 2020, respectively, amounted to \$1,665,187 and \$1,605,187, respectively.

Notes to the Financial Statements – (continued)

June 30, 2021 and 2020

Note 9 - Net assets with donor restrictions

Net assets with donor restrictions consist mainly of federal grants received from the U.S. Department of Education (USDE) under the Title V program, Endowment Challenge Grant, together with the income earned on the grants' amount. The University matches these grants dollar for dollar. The federal grants and the University's contribution constitute the Endowment Fund Corpus. The University must invest and shall not expend the Endowment Fund Corpus for a period of 20 years. Afterwards, the Endowment Fund Corpus can be used for any educational purpose.

Note 10 - Fair value of financial instruments

ASC 820, *Fair Value Measurement*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access. |
| Level 2 | Inputs to the valuation methodology include, <ul style="list-style-type: none">• Quoted prices for similar assets or liabilities in active markets;• Quoted prices for identical or similar assets or liabilities in inactive markets;• Inputs other than quoted prices that are observable for the asset or liability;• Inputs that are derived principally from or corroborated by observable market data by correlation or other means. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Notes to the Financial Statements – (continued)

June 30, 2021 and 2020

Note 10 - Fair value of financial instruments – (continued)

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2021.

U.S. Government and agencies obligations and municipal bonds — Valued using pricing models maximizing the use of observable inputs for similar securities. Examples of inputs that are commonly relevant for valuing particular classes of fixed-income securities, include prepayment speeds, actual pool, and collateral information for mortgage-backed securities and standard inputs and treasury curves and spreads for U.S. government securities. These investments are classified as Level 2.

Corporate bonds — Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote, if available. These investments are classified as Level 2.

Mutual funds — Mutual funds classified as Level 1 are valued at the daily closing price as reported by the fund. These funds are open-ended mutual funds that are registered with the Securities and Exchange Commission. These mutual funds are required to publish their daily net asset value (NAV) and to transact at that price.

Level 2 mutual funds are valued based on NAV quotes provided by the broker-dealers and the market makers for these funds.

Money market funds — Valued at cost, plus accrued interest, which approximates fair value. Money market funds are classified as Level 1.

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Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (continued)

June 30, 2021 and 2020

Note 10 - Fair value of financial instruments – (continued)

The following table sets forth by level, within the fair value hierarchy, the University's investments, including investments with and without restrictions, as of June 30, 2021 and 2020:

2021

Description	Level 1	Level 2	Level 3	Total
U.S. Government and agencies obligations bonds	\$ -	\$ 1,097,118	\$ -	\$ 1,097,118
Corporate bonds	-	4,277,295	-	4,277,295
Mutual funds	11,074,696	-	-	11,074,696
Municipal bonds	-	4,355,645	-	4,355,645
Money market	2,587,186	-	-	2,587,186
Total	<u>\$ 13,661,882</u>	<u>\$ 9,730,058</u>	<u>\$ -</u>	<u>\$ 23,391,940</u>

2020

Description	Level 1	Level 2	Level 3	Total
U.S. Government and agencies obligations bonds	\$ -	\$ 1,138,452	\$ -	\$ 1,138,452
Corporate bonds	-	4,850,899	-	4,850,899
Mutual funds	7,511,847	324,280	-	7,836,127
Municipal bonds	-	4,539,360	-	4,539,360
Money market	1,526,475	-	-	1,526,475
Total	<u>\$ 9,038,322</u>	<u>\$ 10,852,991</u>	<u>\$ -</u>	<u>\$ 19,891,313</u>

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (continued)

June 30, 2021 and 2020

Note 11 - Employee benefit plans

Substantially all employees of the University participate in two separate retirement plans (the Plans), covering the employees of the Puerto Rico and Miami campuses. Participants are allowed to make contributions to the Plans, not exceeding the maximum deferral amount specified by law. The University contributions are based on a percentage of the participants' compensation. These plans are subject to the provisions of the Employee Retirement Income Security Act of 1974. Contributions to the Plans for the years ended June 30, 2021 and 2020 were \$696,087 and \$532,477, respectively.

Note 12 - Concentrations of credit risk

Financial instruments, which potentially expose the University to concentrations of credit risk, consist primarily of cash and cash equivalents, investments securities and receivables.

Cash and cash equivalents

The University's cash and cash equivalents are deposited with federally insured financial institutions. Cash balances at banks are insured for up to \$250,000 per financial institution. The University normally maintains bank accounts balances in excess of \$250,000, nevertheless, it has not experienced any credit losses on such balances.

Investments

The University's investment portfolio is diversified and includes high quality securities. The University works towards the diversification of the investment portfolio to restore the positive financial results of non-performing investments.

Accounts receivable

Concentration of credit risk with respect to accounts receivable is relatively limited because a substantial portion of these balances is due from U.S. Federal and Commonwealth government agencies.

Revenues

Approximately 95% of the University's students participate in student financial assistance programs under Title IV of the Higher Education Act of 1965, as amended, ("Title IV Programs") of the USDE.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (continued)

June 30, 2021 and 2020

Note 13 - Commitments and contingencies

Facilities lease agreements

The University operates certain facilities under non-cancelable operating leases. Total rent expense for such operating leases amounted to approximately \$179,000 and \$198,000 in 2021 and 2020, respectively.

The estimated future minimum rental payments under the terms of these leases are as follows:

<u>Years Ending</u> <u>June 30,</u>	<u>Amount</u>
2022	\$ 126,956
2023	75,243
2024	86,529
2025	105,340
2026	127,913
Thereafter	<u>446,942</u>
Total	<u>\$ 968,923</u>

The University records rent expense over the lease term as it becomes payable according to the provisions of the underlying lease agreement. Accounting principles generally accepted in the United States of America require that expense from leases with scheduled rent increases be recognized on a straight-line basis over the lease term. However, the difference in methodology used does not have a material effect in the accompanying financial statements.

In addition, the University entered into an agreement with the Commonwealth on December 21, 2012 in which the Commonwealth ceded to the University the use of certain facilities for a period of 30 years, after which it reverts to the Commonwealth.

Operating leases

The University leases miscellaneous office equipment under operating leases. Also, the University contracts with various lessors for the maintenance of the equipment under lease. Rent and maintenance expense under the terms of such leases and agreements during the years ended June 30, 2021 and 2020 was approximately \$72,800 and \$112,400, respectively.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (continued)

June 30, 2021 and 2020

Note 13 - Commitments and contingencies – (continued)

Operating leases – (continued)

Future minimum rentals under existing operating leases at June 30, 2021 are as follows:

Years Ending June 30,	Amount
2022	\$ 53,016
2023	<u>28,424</u>
Total	<u>\$ 81,440</u>

Government contracts and grants

As of June 30, 2021, the University had a significant contract with the Department of Family of the Commonwealth of Puerto Rico (DFPR) to provide clinical services to victims of abuse and their families, among other services, which expires on September 30, 2021. The contract is a pass-through from the DFPR for funds received under the program *Promoting Safe and Stable Families* of the US Department of Health and Human Services (USDHHS). Furthermore, as of June 30, 2021, the University has a sub-division known as Instituto de Tercera Misión (ITM), which has various significant contracts with the Department of Health of the Commonwealth of Puerto Rico (DHPR), the Traffic Safety Commission of the Commonwealth of Puerto Rico (TSCPR), among other state agencies, to provide different professional, consulting and clinical services, which expire through different dates. These contracts are also pass-throughs from the USDHHS, the Federal Highway Administration, among other U. S. federal agencies.

The University participates in various federally funded programs of the USDE, including student financial assistance under Title IV Programs. The contracts with the DFPR, DHPR, TSCPR and Title IV Programs, among the other programs in which the University participates, are routinely subject to financial and compliance audits in accordance with the provisions of the Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance) or to compliance audits by the grantors and/or federal agencies. The reports on the audits of these programs, which are conducted pursuant to regulatory requirements by external auditors of the University, are required to be submitted to the U.S. federal agencies.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (continued)

June 30, 2021 and 2020

Note 13 - Commitments and contingencies – (continued)

Government contracts and grants – (continued)

The University also participates in other state grants awarded by the Board of Postsecondary Institutions of the Commonwealth of Puerto Rico (BPIPR) and the Florida Department of Education Office of Student Financial Assistance (Florida DE), the uses of which are also subject to financial and compliance audits in accordance with the provisions of the audit guide for financial assistance state programs issued by the BPIPR and the Instructions for Program Compliance Audits of States Student Financial Assistance Programs issued by the Florida DE, respectively. Funds received under U.S. federal and local programs are subject to regulatory requirements and can only be expended for the purposes established in the grant or programs. Federal and state agencies have the authority to determine liabilities, if any, as well as, to limit, suspend, or terminate the federal and state student financial assistance programs. No provision has been made for any liability, which may arise from such audits since the amounts, if any, cannot be determined at this date.

The Health Insurance Portability and Accountability Act

Because of the nature of the services provided under the contract with the DFPR mentioned above, the University is subject to the Health Insurance Portability and Accountability Act (HIPAA) provisions. HIPAA was enacted in August 1996 to assure health insurance portability, reduce healthcare fraud and abuse, guarantee security and privacy of health information and enforce standards for health information. Health care providers are required to be in compliance with HIPAA provisions and are subject to significant fines and penalties if found not to be in compliance with the provisions outlined in the regulations. The University believes to be in compliance with such provisions.

Legal contingencies

The University is subject to legal proceedings and claims arising in the ordinary course of its business. In the opinion of management, appropriate provisions have been made for such claims in the accompanying financial statements and the ultimate resolution of these matters will not have a significant effect on the financial position or the results of operations of the University.

Note 14 - Functional expenses

The statements of activities and changes in net assets report certain categories of expenses that are attributable to one or more program or supporting functions of the University. These expenses include depreciation and amortization, facilities maintenance and rent, among others. The allocation of these expenses by function was performed using the cost centers' personnel distribution. Other costs categories were directly allocated to the benefited activity.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2021 and 2020

Note 14 - Functional expenses - (continued)

Expenses by function for the year ended June 30, 2021 consist of:

	Program Activities			Supporting Activities				
	Instruction	Academic Support	Student Services	Research	Institutional Support	Public Services	Contributed Services	Total
Salaries and benefits	\$ 10,031,733	\$ 2,665,072	\$ 2,184,560	\$ 304,808	\$ 3,532,220	\$ 5,382,199	\$ -	\$ 24,100,592
Professional services	109,238	203,742	17,287	24,660	2,072,145	2,918,255	320,182	5,665,509
Rent	1,598	104,095	11,891	2,699	245,825	131,765	-	497,873
Repairs and maintenance	-	819,580	16,760	-	855,377	19,648	-	1,711,365
Insurance	-	-	-	-	661,967	17,379	-	679,346
Utilities	-	61,248	-	-	619,086	57,397	-	737,731
Depreciation and amortization	43,103	181,969	-	-	716,120	5,446	-	946,638
Other	<u>132,787</u>	<u>654,858</u>	<u>355,516</u>	<u>3,268</u>	<u>3,568,427</u>	<u>585,403</u>	<u>-</u>	<u>5,300,259</u>
Total	<u>\$ 10,318,459</u>	<u>\$ 4,690,564</u>	<u>\$ 2,586,014</u>	<u>\$ 335,435</u>	<u>\$ 12,271,167</u>	<u>\$ 9,117,492</u>	<u>\$ 320,182</u>	<u>\$ 39,639,313</u>

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2021 and 2020

Note 14 - Functional expenses – (continued)

Expenses by function for the year ended June 30, 2020 consist of:

	Program Activities			Supporting Activities				
	Instruction	Academic Support	Student Services	Research	Institutional Support	Public Services	Contributed Services	Total
Salaries and benefits	\$ 9,349,624	\$ 2,461,152	\$ 1,791,758	\$ 277,518	\$ 3,094,047	\$ 4,734,376	\$ -	\$ 21,708,475
Professional services	78,476	236,375	525	49,425	2,237,987	1,213,444	310,077	4,126,309
Rent	1,871	140,622	15,732	3,136	334,710	87,825	-	583,896
Repairs and maintenance	-	610,454	29,898	-	914,243	18,101	-	1,572,696
Insurance	-	-	-	-	586,619	22,716	-	609,335
Utilities	-	55,075	-	-	741,724	37,377	-	834,176
Depreciation and amortization	21,759	102,870	-	-	660,129	2,178	-	786,936
Other	<u>189,762</u>	<u>1,145,479</u>	<u>297,059</u>	<u>22,236</u>	<u>3,056,562</u>	<u>281,389</u>	<u>-</u>	<u>4,992,487</u>
Total	<u>\$ 9,641,492</u>	<u>\$ 4,752,027</u>	<u>\$ 2,134,972</u>	<u>\$ 352,315</u>	<u>\$ 11,626,021</u>	<u>\$ 6,397,406</u>	<u>\$ 310,077</u>	<u>\$ 35,214,310</u>

Notes to the Financial Statements – (Continued)

June 30, 2021 and 2020

Note 15 - Financial responsibility standards

Pursuant to 34 CFR Parts 668, 682, and 685, on September 23, 2019, the U.S. Department of Education (USDE) finalized the Student Assistance General Provisions, Federal Family Education Loan Program, and William D. Ford Federal Direct Loan Program (new borrower defense rules). The University adopted the provisions of the new borrower defense rules effective for the year ended on June 30, 2020. The new borrower defense rules established new financial responsibility requirements for private nonprofit institutions and discretionary and non-discretionary triggering events, which affect both public and nonprofit institutions. Also, the new borrower defense rules require that all institutions that receive Title IV aid notify the U.S. Department of Education (USDE) when certain triggering events occur.

Furthermore, the new borrower defense rules require the inclusion of a supplemental schedule in the audited financial statements package that contains all financial elements needed to calculate the composite score ratios with a cross-reference to the financial statement line, or note disclosure, that contains the element.

34 CFR Sections 668.171 and 668.175 require the University to demonstrate that it is financially responsible under certain criteria. Under these regulations, an institution is considered financially responsible, based in part on a composite score, as defined. If the institution achieves a composite score of at least 1.5 and meets certain other criteria, it is deemed to be financially responsible. As of June 30, 2021 and 2020, the University's composite score was 3.0 and met all of the required criteria. Accordingly, the University is considered financially responsible at June 30, 2021 and 2020, under the applicable regulations.

Note 16 - Financial assets to meet current general expenditures needs

The University's assets available within one year of the statement of financial position date to meet cash needs for general expenditures as of June 30, 2021 and 2020 consist of cash and cash equivalents, accounts receivable, net, and investments without restrictions amounting to \$30,699,224 and \$25,429,335, respectively.

None of the financial assets disclosed above are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position date.

Notes to the Financial Statements – (Continued)

June 30, 2021 and 2020

Note 17 - Impacts of COVID-19

In March 2020, the World Health Organization declared the coronavirus disease COVID-19 a global pandemic. This highly contagious disease has spread worldwide affecting workforces, customers, economies and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many businesses. As governments and private sectors respond to this evolving threat, their actions and restrictions that they have or may impose, could further adversely impact the University's operations.

On March 27, 2020, the President of the United States signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which contains \$376 billion in relief for American workers and small businesses. The CARES Act established several new temporary programs to address the COVID-19 outbreak. Among those programs, the CARES Act established the Higher Education Emergency Relief Fund (HEERF). The HEERF includes approximately \$12.5 billion in relief funds to be distributed directly to institutions of higher education. At least 50% of the funds awarded to an institution of higher education must be used for emergency financial aid grants to students. The remaining funds must be used "to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus."

In order to access the HEERF funds, institutions must complete two Funding and Certification Agreements (the "HEERF Agreements"), one for the emergency financial grants to students portion and the other for the institutional portion, which obligate the recipient to administer the funds in a manner that is consistent with the CARES Act and federal laws cited in the HEERF Agreements. The HEERF Agreements also subject the recipient to a range of reporting and audit requirements. The USDE has emphasized that institutions should be prepared to report the use of the funds and to describe any internal controls the institution has in place to ensure that funds were used for allowable purposes and in accordance with cash management principles.

The USDE also has encouraged institutions to keep detailed records of how they are expending all funds received under the HEERF and indicated that further instructions are forthcoming in a notice in the Federal Register. A failure to administer the HEERF funds in accordance with applicable laws at regular intervals could result in a future repayment liability.

The allocations to the higher education institutions were set by a formula prescribed in the CARES Act, which is weighted significantly by the number of full-time students who are Pell-eligible, but also takes into consideration the total population of the University and the number of students who were not enrolled full-time online before the COVID-19 outbreak. The USDE utilized the most recent data available from the Integrated Postsecondary Education Data System and Federal Student Aid for this calculation.

Notes to the Financial Statements – (Continued)

June 30, 2021 and 2020

Note 17 - Impacts of COVID-19 – (continued)

HEERF funds for student grants

Per the HEERF Agreements, at least 50% of HEERF funds received were to be used exclusively for emergency financial aid grants to students impacted by COVID-19, supporting their efforts to stay in school and continue their training toward graduation and future careers. During the years ended on June 30, 2021 and 2020, the University had awarded \$726,799 and \$726,799, respectively, in the form of grants to over 2,100 and 2,200 students, respectively, and thus, no funds remained unexpended from the HEERF funds for student grants. Furthermore, as disclosed below, during the years ended on June 30, 2021 and 2020, the University awarded an additional \$126,601 and \$40,401 to students from the institutional portion of the HEERF grant and thus, total awards to students amounted to \$853,400 and \$767,200 for the years ended on June 30, 2021 and 2020, respectively.

HEERF funds for significant changes to the delivery of instruction

During May 2020, the University received \$155,561 for the institutional portion of the HEERF funds, from a total award of \$726,799 for the institutional portion of the HEERF funds. Such funds may be used to provide additional emergency financial aid grants to students, to cover institutional costs associated with significant changes to the delivery of instruction due to coronavirus, or not used at all and returned to the government. As disclosed above, during the years ended on June 30, 2021 and 2020, the University awarded \$126,601 and \$40,401, respectively, in the forms of grants to students from the institutional portion of the HEERF funds. As of June 30, 2021 and 2020, funds amounting to nil and \$115,160, respectively, remained in restricted cash with an offsetting liability included in accrued expenses in the accompanying statement of financial position for the HEERF funds not expended as of such dates. Furthermore, during the year ended on June 30, 2021 the University incurred allowable expenses from the HEERF funds from the institutional portion amounting to \$571,006.

As of June 30, 2021, the University has approximately \$6,300,000 in funds granted and available to drawdown from the USDE. It is the University's general intent to draw the institutional funds from the USDE G5 Grants Management System ("G5") as the University incurs and records the allowable expenses under the grant requirements. Thus, the funds that remained in the University's G5 account with the USDE are not included in the accompanying statement of financial position as of June 30, 2021.

Notes to the Financial Statements – (Continued)

June 30, 2021 and 2020

Note 17 - Impacts of COVID-19 – (continued)

HEERF funds for significant changes to the delivery of instruction – (continued)

Per the CARES Act, the HEERF Agreements, and USDE guidance, the following requirements are generally applicable to all allowable institutional costs:

- Funds may only be used to cover institutional costs associated with significant changes to the delivery of instruction due to the coronavirus.
- Costs must have been incurred on or after March 13, 2020.
- Funds must be used promptly and to the greatest extent practicable within one year of the date the funds are received and no later than September 30, 2022.
- The use of funds must be documented and reported.

The University exercised discretion in determining how to allocate and use the funds granted under the CARES Act, provided that the funds will be spent only on those costs for which the University has a reasoned basis for concluding such costs have a clear nexus to significant changes to the delivery of instruction due to the coronavirus.

Institutional costs that the USDE has specifically designated as allowable include: additional emergency grants to students; technology costs including laptops, hotspots, and other information technology equipment and software to enable students to participate in distance learning; qualified scholarships and payment for future academic terms; and payments to a third-party service provider or online program manager for each additional student using the distance learning platform. The USDE has specifically prohibited costs related to pre-enrollment recruiting activities, endowments, capital outlays associated with facilities to athletics, sectarian instruction, or religious worship, executive compensation, investor benefits, and to pay student balances or student debt.

Note 18 - Subsequent events

Management has evaluated subsequent events through December 15, 2021, which is the date the financial statements were available to be issued. Except as disclosed in Note 6, no events have occurred subsequent to the statement of financial position date and through the date the financial statements were available to be issued, that would require additional adjustment to or disclosure in the financial statements.

Universidad Carlos Albizu, Inc.

Supplemental Schedule of Financial Responsibility

June 30, 2021

Primary Reserve Ratio:			
Expendable Net Assets:			
Reference	Financial Element	Amounts (in U.S. dollars)	
Statement of Financial Position - Net assets without donor restrictions	Net assets without donor restrictions	\$ -	\$ 40,091,804
Statement of Financial Position - Net assets with donor restrictions	Net assets with donor restrictions	-	5,771,896
N/A	Secured and Unsecured related party receivable	-	-
N/A	Unsecured related party receivable	-	-
Statement of Financial Position - Property, plant and equipment, net	Property, plant and equipment, net (includes Construction in progress)	23,084,115	-
Note 5 of the Financial Statements - Statement of Financial Positions- Property and Equipment	Property, plant and equipment pre-implementation	-	21,033,821
N/A	Property, plant and equipment post-implementation with outstanding debt for original purchase	-	-
N/A	Property, plant and equipment post-implementation without outstanding debt for original purchase	-	-
Note 5 of the Financial Statements - Statement of Financial Positions- Property and Equipment - Construction in progress	Construction in progress	-	2,050,294
N/A	Lease right-of-use asset, net	-	-
N/A	Lease right-of-use asset, pre-implementation	-	-
N/A	Lease right-of-use asset, post-implementation	-	-
N/A	Intangible assets	-	-
N/A	Post-employment and pension liabilities	-	-
Note 6 of the Financial Statements - Long-term debt	Long-term debt - for long term purposes	6,655,653	-
Note 6 of the Financial Statements - Long-term debt	Long-term debt - for long term purposes pre-implementation	-	6,655,653
N/A	Long-term debt - for long term purposes post-implementation	-	-
N/A	Line of Credit for Construction in progress	-	-
N/A	Lease right-of-use asset liability	-	-
N/A	Pre-implementation right-of-use asset liability	-	-
N/A	Post-implementation right-of-use asset liability	-	-
N/A	Annuities with donor restrictions	-	-
N/A	Term endowments with donor restrictions	-	-
N/A	Life income funds with donor restrictions	-	-
N/A	Net assets with donor restrictions: restricted in perpetuity	-	-
Total Expenses and Losses			
Reference	Financial Element	Amounts (in U.S. dollars)	
Statement of Activities - Total Operating Expenses	Total expenses without donor restrictions - taken directly from Statement of Activities	\$ -	\$ 39,639,313
Statement of Activities Non-Operating (Interest Expense)	Non-Operating Expense	-	291,857
N/A	Net investment losses	-	-
N/A	Pension -related changes other than net periodic costs	-	-

Universidad Carlos Albizu, Inc.

Supplemental Schedule of Financial Responsibility (Continued)

June 30, 2021

Equity Ratio:				
<u>Modified Net Assets:</u>				
Reference		Financial Element	Amounts (in U.S. dollars)	
Statement of Financial Position - Net Assets without Donor Restrictions		Net assets without donor restrictions	\$ -	\$ 40,091,804
Statement of Financial Position - Net Assets with Donor Restriction		Net assets with donor restrictions	-	5,771,896
N/A		Intangible assets	-	-
N/A		Secured and Unsecured related party receivables	-	-
N/A		Unsecured related party receivables	-	-
<u>Modified Assets:</u>				
Reference		Financial Element	Amounts (in U.S. dollars)	
Statement of Financial Position - Total assets		Total assets	\$ -	\$ 59,292,567
N/A		Lease right-of-use asset pre-implementation	-	-
N/A		Pre-implementation right-of-use asset liability	-	-
N/A		Intangible assets	-	-
N/A		Secured and Unsecured related party receivables	-	-
N/A		Unsecured related party receivables	-	-

Net Income Ratio:				
Reference		Financial Element	Amounts (in U.S. dollars)	
Statement of Activities - Change in Net Assets Without Donor Restrictions		Change in Net Assets Without Donor Restrictions	\$ -	\$ 4,293,573
Statement of Activities - Total Revenues, Gains and Other Support, Interest and Dividend Income, Net Realized and Unrealized Gains on Investments and Rental Income.		Total Revenues and Gains	-	44,224,743

Universidad Carlos Albizu, Inc.

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2021

Federal Agency/(Pass-Through Agency) and Program Title	Assistance Listing Number	Other Award Number	Federal Expenditures			Passed to Subrecipients
			From Direct Awards	From Pass- Through Awards	Total Expenditures	
U.S. Department of Education:						
Student Financial Assistance Program Cluster (Title IV):						
Federal Supplemental Educational Opportunity Grant Program	84.007		\$ 169,400	\$ -	\$ 169,400	\$ -
Federal Work-Study Program	84.033		245,886	-	245,886	-
Federal Pell Grant Program	84.063		3,213,070	-	3,213,070	-
Federal Direct Student Loan Program	84.268		40,390,975	-	40,390,975	-
Total Student Financial Assistance Program			44,019,331	-	44,019,331	-
U.S. Department of Education:						
Higher Education - Institutional Aid Programs:						
Higher Education-Institutional Aid (84.031):						
Higher Education-Institutional Aid: Developing Hispanic-Serving Institutions Program	84.031S		129,627	-	129,627	-
Higher Education-Institutional Aid: Promoting Postbaccalaureate Opportunities for Hispanic Americans Program	84.031M		489,850	-	489,850	-
Emergency Assistance to Institutions of Higher Education	84.938T		61,173	-	61,173	-
COVID-19-Higher Education Emergency Relief Fund - Student Aid Portion	84.425E		726,799	-	726,799	-
COVID-19-Higher Education Emergency Relief Fund - Institutional Portion	84.425F		697,607	-	697,607	-
U.S. Department of Health and Human Services:						
Behavioral Health Workforce Education and Training for Professionals and Paraprofessionals	93.732		460,111	-	460,111	-
Graduate Psychology Education Program	93.191		72,688	-	72,688	-
(Pass-Through from Department of Education of the Commonwealth of Puerto Rico)						
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		106,506	-	106,506	-
(Pass-Through from Families and Children Administration of the Department of Family of the Commonwealth of Puerto Rico):						
Promoting Safe and Stable Families	93.556		-	1,559,962	1,559,962	-
		2020-000-154 and				
Promoting Safe and Stable Families	93.556	2021-000-035	-	2,895,085	2,895,085	-

(continues)

Universidad Carlos Albizu, Inc.

Schedule of Expenditures of Federal Awards – (continued)

For the Year Ended June 30, 2021

Federal Agency/(Pass-Through Agency) and Program Title	Assistance Listing Number	Other Award Number	Federal Expenditures			Passed to Subrecipients
			From Direct Awards	From Pass- Through Awards	Total Expenditures	
U.S. Department of Health and Human Services:						
Puerto Rico Optimal System Change (PROSA) for Teenage Pregnancy Prevention Program - Adolescent Health Programs	93.297		832,595	-	832,595	329,717
(Pass-Through from Puerto Rico Department of Health):						
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		-	131,034	131,034	-
Drug-Free Communities Support Program Grants	93.276		-	21,250	21,250	-
National Institute on Minority Health and Health Disparities (NIMHD) Extramural Loan Repayment Programs	93.308		-	30,096	30,096	-
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505		-	384,936	384,936	-
Opioid STR	93.788		-	131,556	131,556	-
Healthy Start Initiative	93.926		-	379,685	379,685	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959		-	35,425	35,425	-
The Maternal, Infant and Early Childhood Home Visiting Program	93.870		-	313,195	313,195	-
Corporation for National and Community Service:						
(Pass-Through from Department of Education of the Commonwealth of Puerto Rico) Volunteers in Service to America	94.013		-	23,939	23,939	-
Federal Highway Administration:						
(Pass-Through from Puerto Rico Traffic Safety Commission) State Traffic Safety Information System Improvement Grants - National Priority Safety Programs	20.616		-	218,321	218,321	-
Total Other Programs			3,576,956	6,124,484	9,701,440	329,717
Total Expenditures of Federal Awards			\$ 47,596,287	\$ 6,124,484	\$ 53,720,771	\$ 329,717

See accompanying notes to schedule of expenditures of federal awards

Universidad Carlos Albizu, Inc.

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2021

Note 1 - Basis of Presentation

The accompanying supplementary Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Universidad Carlos Albizu, Inc. (the University) and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the University's financial statements.

Because the Schedule presents only a selected portion of the activities of the University, it is not intended to, and does not present the financial position, changes in net assets, and cash flows of the University. Funds received for students' financial assistance (principally Pell Grant and Federal Direct Student Loan Program) that are awarded directly to students for educational purposes are excluded from revenues and expenses. These grants are applied to the students' tuition and fees and any excess is paid to the students.

Note 2 - Summary of Significant Accounting Policies

- a. The Schedule is prepared from the University's accounting records.
- b. The financial transactions are recorded by the University in accordance with the terms and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
- c. Expenditures are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.
- d. The University does not use the 10-percent de minimis indirect cost rate, as allowed under the Uniform Guidance.

Note 3 - Assistance Listing Number

Assistance Listing Numbers (ALN) included in the Schedule are determined based on the program name, review of grant contract information and the public descriptions of federal assistance listings published by the U.S. Government on sam.gov. Assistance Listing numbers are presented for those programs for which such numbers were available.

Universidad Carlos Albizu, Inc.

Notes to Schedule of Expenditures of Federal Awards – (Continued)

Year Ended June 30, 2021

Note 4 - Loan Program

The University participates in the Federal Direct Student Loan Program (Direct Loans) (ALN 84.268). Loans made through the Direct Loans program are provided by the federal government; accordingly, the disbursements under the program and the outstanding loan balances are excluded from the financial statements of the University. However, such program is considered a component of the student financial assistance program at the University. Federal expenditures for these loans are determined when loans are made to students. The balance of loans for previous years is not considered federal expenditures of the current year because the lender accounts for them. Direct Loans are made by the Secretary of Education. The Student's Aid Reports (SAR) or Institutional Student Information Record (ISIR), along with other information, is used by the University to originate a student's loan. New loans processed for students during the year ended June 30, 2021 amounted to \$40,390,975.

PART II

Universidad Carlos Albizu, Inc.

Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Universidad Carlos Albizu, Inc.

Report on the Financial Statements

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Universidad Carlos Albizu, Inc. (the University), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Universidad Carlos Albizu, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Universidad Carlos Albizu, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Universidad Carlos Albizu, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Board of Trustees
Universidad Carlos Albizu, Inc.
Page 2

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control over financial reporting, which is reported in the schedule of findings and questioned costs as item 2021-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



FPV & Galindez

San Juan, Puerto Rico
December 15, 2021
License No. LLC-322
Expires December 1, 2023

PART III

Universidad Carlos Albizu, Inc.

Independent Auditors' Report on Compliance with
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance with
the Uniform Guidance

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Board of Trustees
Universidad Carlos Albizu, Inc.

Report on Compliance for Each Major Federal Program

We have audited Universidad Carlos Albizu, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Universidad Carlos Albizu, Inc.'s major federal programs for the year ended June 30, 2021. Universidad Carlos Albizu, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Universidad Carlos Albizu, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Universidad Carlos Albizu, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Universidad Carlos Albizu, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Universidad Carlos Albizu, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2021-003 and 2021-005 through 2021-008. Our opinion on each major federal program is not modified with respect to these matters.

Universidad Carlos Albizu, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Universidad Carlos Albizu, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Universidad Carlos Albizu, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Universidad Carlos Albizu, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Universidad Carlos Albizu, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Board of Trustees
Universidad Carlos Albizu, Inc.
Page 3

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2021-002, 2021-004 and 2021-006 through 2021-008 that we consider to be material weaknesses. Also, we did identify deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2021-003 and 2021-005 that we consider to be significant deficiencies.

The University's response to the deficiencies in internal control over compliance identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



FPV & Galindez

San Juan, Puerto Rico
December 15, 2021
License No. LLC-322
Expires December 1, 2023

PART IV

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2021

Part I - Summary of Auditors' Results

Financial Statements

- a) Type of report the auditor issued on whether the financial statements audited were prepared in accordance to GAAP: Unmodified opinion
- b) Material weaknesses in internal control over financial reporting identified: No.
- c) Significant deficiencies in internal control over financial reporting identified that are not considered to be material weaknesses: Yes, one instance is considered to be a significant deficiency in internal controls over financial reporting which is disclosed by the audit of the financial statements and is included in the schedule of findings and questioned costs as item 2021-001.
- d) Noncompliance that is material to the financial statements: None.

Federal Awards

- a) Are there any reportable findings under Uniform Guidance § 200.516: Yes, there are various reportable findings, which were included in the schedule of findings and questioned costs as items 2021-002 through 2021-008.
- b) Major programs:

<u>Name of Federal Program or Cluster:</u>	<u>CFDA Number</u>
U.S. Department of Education:	
Student Financial Assistance Program Cluster (Title IV):	
Federal Supplemental Educational Opportunity Grant Program	84.007
Federal Work-Study Program	84.033
Federal Pell Grant Program	84.063
Federal Direct Student Loan Program	84.268
COVID-19 - Higher Education Emergency Relief Fund- Student Aid Portion	84.425E
COVID-19 - Higher Education Emergency Relief Fund- Institutional Portion	84.425F
U.S. Department of Health and Human Services:	
Promoting Safe and Stable Families	93.556
Teen Pregnancy Prevention Program	93.297

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part I - Summary of Auditors' Results – (continued)

- c) Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.
- d) Auditee qualified as a low-risk auditee under Uniform Guidance § 200.520: No.
- e) Internal control over compliance with major programs:
 - i. Material weaknesses identified? Yes
 - ii. Significant deficiencies identified? Yes
- f) Type of auditor's report issued on compliance for major programs: Unmodified opinion.
- g) The composition of the audit samples for the Pell grant and direct loans programs and the population from which the samples were drawn were as follows:
 - i. Pell Grant Program

Sample					Population from which the Sample was drawn	
Sample Description	Related Compliance Requirement(s)	OPEID	Receiving Pell (#)	Pell Disbursed (\$)	Students Receiving Pell (#)	Pell Disbursed (\$)
Eligibility Sample	Eligibility; and, Special Tests and Provisions - Verification and Disbursements to or on Behalf of Student	1072400	12	\$ 79,445	404	\$ 2,587,081
		1072401	4	25,005	112	625,989
			<u>16</u>	<u>\$ 104,450</u>	<u>516</u>	<u>\$ 3,213,070</u>
Total						
Return of Title IV Sample	Special Tests and Provisions - Return of Title IV Funds	1072400	3	\$ 10,418	34	\$ 181,905
		1072401	1	2,579	7	29,348
			<u>4</u>	<u>\$ 12,997</u>	<u>41</u>	<u>\$ 211,253</u>
Sample and Population Overlap			<u>-</u>	<u>\$ -</u>	<u>41</u>	<u>\$ 211,253</u>

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part I - Summary of Auditors' Results – (continued)

ii. Direct Loans Program

Sample					Population from which the Sample was drawn	
Sample Description	Related Compliance Requirement(s)	OPEID	Students		Students	
			Receiving Direct Loans (#)	Direct Loans Disbursed (\$)	Receiving Direct Loans (#)	Direct Loans Disbursed (\$)
Eligibility Sample	Eligibility; and, Special Tests and Provisions - Verification and Disbursements to or on Behalf of Student	1072400	36	\$ 531,672	1,804	\$ 27,397,242
		1072401	12	297,240	720	12,931,934
			48	\$ 828,912	2,524	40,329,176
Return of Title IV Sample	Special Tests and Provisions - Return of Title IV Funds	1072400	16	\$ 110,887	87	\$ 1,094,616
		1072401	6	36,017	24	307,641.00
			22	\$ 146,904	111	1,402,257
Sample and Population Overlap			-	\$ -	111	\$ 1,402,257

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part II - Findings Relating to the Financial Statements that are Required to be Reported in Accordance with Government Auditing Standards

Finding No. 2021-001 Deviation from Guidelines Established by the Institutional Purchasing Policy

Type of Finding: Internal Control Over Financial Reporting

Questioned Cost: None

Category

Significant deficiency

Criteria

The University's purchasing policy (as amended by Procedimiento de Autorización de Compra de Bienes y Servicios, normative letter No. 2021-04) is created with the purpose of establishing procedures governing the initiation, authorization, and review of all expenditures. To facilitate this process the accounting department developed a checklist that promotes the compliance with this policy. The normative letter No. 2021-04 establishes that the purchases of goods and services continue to be executed through the generation of purchase requisitions in the Webadvisor electronic platform, which also serves as reference to verify the availability of funds before the creation of the purchase requisition. Also, the normative letter No. 2021-04 requires the completion of an authorization form (appendix A form) for the purchase of goods and services that exceed \$5,000. The authorization form establishes different levels of approvals that are necessary depending on the amount of the disbursement.

Condition found

During our audit procedures on internal controls of the University, we tested a sample of sixty (60) purchase orders, and we noted the following conditions:

- Two appendix A forms did not have date of approval signature

Cause

The lack of signature's date was mainly related to the use of a manual requisition process instead the ordinary system tool for signature due to the special nature of the purchases.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part II - Findings Relating to the Financial Statements that are Required to be Reported in Accordance with Government Auditing Standards – (continued)

Finding No. 2021-001 Deviation from Guidelines Established by the Institutional Purchasing Policy – (continued)

Effect

Not having the complete documentation at the time of recognition of an expenditure or when executing a payment may lead to inadequate recording, duplicity in recording or in payment, recording invalid transactions or unauthorized purchases. This deficiency in internal controls precludes management from the proper and complete examination of the financial activities performed by the Institution. The internal controls established to ensure that the check requests are eligible under the University's policy and that each invoice or contract is paid only one time were not properly executed. Pertinent information regarding costs, authorizations, obligations, type of expenditures and its allowability, among other requirements, was not properly documented.

Also, by not having the date of the signature available, we could not determine if the form was properly completed as required.

Context

Of the sixty (60) purchase orders selected for examination of internal controls over financial reporting, two (2) purchase orders were lacking the complete documentation of their approval.

Identification of a repeat finding

This is a repeat finding from the immediate previous audit, Finding No. 2020-001.

Recommendation

Management of the University must assure that all disbursements include all the required documentation in accordance with the University's policy prior to executing and paying the purchases. Override of the pre-established internal controls may lead to fraudulent purchases, misstatements on the financial statements and/or unallowable costs incurred by the federal program.

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Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part II - Findings Relating to the Financial Statements that are Required to be Reported in Accordance with Government Auditing Standards – (continued)

Finding No. 2021-001 Institutional Purchasing Policy – (continued)

Views of responsible officials and planned corrective actions

The University's management agrees with this finding. Please refer to the corrective action plan on pages 73-82.

Part III - Findings and Questioned Costs Relating to Federal Awards

Finding No. 2021-002 Internal Controls Over Expenditures of Federal Awards

Federal Program

ALN 93.556	Promoting Safe and Stable Families
ALN 93.297	Teenage Pregnancy Prevention Program

Name of Federal Agency

U.S. Department of Health and Human Services

Pass-through Entity

Promoting Safe and Stable Families – Passthrough from the Families and Children Administration of the Department of Family of the Commonwealth of Puerto Rico

Category

Material weakness of internal controls over compliance

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Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2021-002 Internal Controls Over Expenditures of Federal Awards - (continued)

Criteria

As per the Code of Federal Regulations (CFR) § 200.303 Internal controls, the non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The University’s purchasing policy (as amended by Procedimiento de Autorización de Compra de Bienes y Servicios, normative letter No. 2021-04) is created with the purpose of establishing procedures governing the initiation, authorization, and review of all expenditures. To facilitate this process the accounting department developed a checklist that promotes the compliance with this policy. The normative letter No. 2021-04 establishes that the purchases of goods and services continue to be executed through the generation of purchase requisitions in the Webadvisor electronic platform, which also serves as reference to verify the availability of funds before the creation of the purchase requisition.

Also, the normative letter No. 2021-04 requires the completion of an authorization form (appendix A form) for the purchase of goods and services that exceed \$5,000. The authorization form establishes different levels of approvals that are necessary depending on the amount of the disbursement.

Condition found

During our examination of the expenses of the projects carried out by Instituto Tercera Misión (the Institute) funded by federal programs “Promoting Safe and Stable Families - Family First Prevention Act Transition Grant” (Family First) and “Puerto Rico Optimal System Change (PROSA) for Teenage Pregnancy Prevention Program - Adolescent Health Programs”, we tested a sample of one hundred one (101) purchases and observed the following conditions:

- Six (6) requisitions were not created for six (6) different purchases. They were created after the expense was incurred.
- Thirty-three (33) appendix A forms did not include the date of the signatures which is an element required by the form.
- For one (1) transaction, the required appendix A was not completed.

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2021-002 Internal Controls Over Expenditures of Federal Awards - (continued)

Cause

In an effort to promptly start a program initiative, the Institute omitted the pre-established purchasing process.

Effect

By not following the Institutional Purchasing Policy, the Institute is not complying with the CFR (CFR) § 200.303 Internal controls. Not having the complete documentation at the time of recognition of an expenditure or when executing a payment may lead to inadequate recording, duplicity in recording or in payment, recording invalid transactions or unauthorized purchases. This deficiency in internal controls precludes management from the proper and complete examination of the financial activities performed by the Institute. The internal controls established to ensure that the check requests are eligible under the University's policy and that each invoice or contract is paid only one time were not properly executed. Pertinent information regarding costs, authorizations, obligations, type of expenditures and its allowability, among other requirements, was not properly documented.

Also, by not having the date of the signature available, we could not determine if the form was properly completed as required.

Context

For the Family First program, we examined forty-one (41) purchases amounting to \$246,783 out of a total population of nine hundred thirty-one (931) items amounting to a total of \$2,220,418. For the PROSA program, we examined sixty (60) purchases amounting to \$174,615 out of a total population of three hundred forty-one (341) items amounting to a total of \$870,647.

Identification of a repeat finding

This is a repeat finding from the immediate previous audit, Finding No. 2020-001.

Recommendation

Management of the University, along with the management of the Institute, must assure that all disbursements include all the required documentation in accordance with the University's policy prior to executing and paying the purchases. Override of the pre-established internal controls may lead to fraudulent purchases, misstatements on the financial statements and/or unallowable costs incurred by the federal program.

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2021-002 Internal Controls Over Expenditures of Federal Awards - (continued)

Views of responsible officials and planned corrective actions

The University's management agrees with this finding. Please refer to the corrective action plan on pages 73-82.

Finding No. 2021- 003 Special Tests and Provisions – Disbursements to or on Behalf of Students

Federal Program

ALN 84.268 Federal Direct Student Loans Program

Name of Federal Agency

U.S. Department of Education

Pass-through Entity

N/A

Category

Compliance/Significant deficiency of internal controls over compliance

Compliance Requirements

Special tests and provisions – Disbursements to or on behalf of Students

Criteria

34 CFR Section 668.22(a) states that: Whenever an institution disburses Title IV, HEA program funds by crediting a student's account and the total amount of all title IV, HEA program funds credited exceeds the amount of tuition and fees, room and board, and other authorized charges the institution assessed the student, the institution must pay the resulting credit balance directly to the student or parent as soon as possible but--

(1) No later than 14 days after the balance occurred if the credit balance occurred after the first day of class of a payment period; or

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2021-003 Special Tests and Provisions – Disbursements to or on Behalf of Students - (continued)

(2) No later than 14 days after the first day of class of a payment period if the credit balance occurred on or before the first day of class of that payment period

34 CFR 668.164 (d) (2) (i&ii) states that an institution issues a check on the date that it –

- (i) Mail the check to the student or parent; or
- (ii) Notifies the student or parent that the check is available for immediate pick-up at a specified location at the institution. The institution may hold the check for no longer than 21 days after the date it notifies the student or parent. If the student or parent does not pick up the check, the institution must immediately mail the check to the student or parent, pay the student or parent directly by other means, or return the funds to the appropriate title IV, HEA program.

Condition Found

During our evaluation of compliance with these requirements, we noted one (1) instance, or two percent (2%) of the sample selected, in which the University failed to return the corresponding refund within 14 days' time frame from the date the University determined that the student had a Federal Student Aid (FSA) credit balance. A total of twenty-two (22) days elapsed from the date the University determined that the student had a FSA credit balance.

Cause

This condition was due to the miscommunication from a student to provide the correct bank account number in which the credit balance would be deposited and an administrative delay from the collections office personnel of the San Juan campus after receiving the correct bank account number. In the period when the credit balance took place, the University was under lockdown due to the COVID – 19 pandemic and thus, students were taking virtual classes and employees were working from a remote location. Various attempts in contacting the student were made. However, the student communicated back with the University two days before the 14 days' time frame due date.

Effect

As a result of this condition, the USDE may issue warnings and/or impose penalties to the University.

Questioned Cost

None.

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2021-003 Special Tests and Provisions – Disbursements to or on Behalf of Students - (continued)

Context

In testing compliance with the requirements for disbursements under the Federal Direct Student Loan Program, we examined forty-eight (48) participants, from a total population of two thousand four hundred three (2,403) students, who received Federal Direct Loans for the audit period and found one (1) instance of noncompliance. Following is a description of each sample and the population from which the samples were drawn for students that received Direct Loans funds for the year ended June 30, 2021:

Sample		Population from which the Sample was drawn			
Sample Description	OPEID	Student Receiving Direct Loans (#)	Direct Loans Disbursed (\$)	Students Receiving Direct Loans (#)	Direct Loans Disbursed (\$)
Eligibility Sample	01072400	48	\$ 828,912	2,403	\$ 40,329,176
Direct Loans Disbursements Sample	01072400	48	\$ 341,161	2,403	\$ 40,329,176
Sample and Population Overlap		48	\$ 341,161	2,403	\$ 40,329,176

Identification of a repeat finding

This is not a repeat finding

Views of responsible officials and planned corrective actions

Management of the University agrees with this finding. Please refer to the corrective action plan on pages 73-82.

Recommendation

The University must reinforce its procedures to ascertain that all FSA disbursement of credit balances to students comply with time frame criteria for refunds. Management also should review how is the process currently undertaken to identify and eliminate any inefficiencies and to adapt other steps necessary to improve the overall process. A log of pending disbursements with their respective due date should be kept and properly monitored to reduce the risk of non-compliance due to errors or administrative delays.

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2021-004 Cash Management – Drawdowns of funds

Federal Program

ALN 93.297 Teenage Pregnancy Prevention Program

Name of Federal Agency

U.S. Department of Health and Human Service

Pass-through Entity

N/A

Category

Material weakness of internal controls over compliance

Compliance Requirements

Cash Management – Drawdowns of funds

Per 2 CFR 200.303, non-federal entities should establish and maintain effective internal control over compliance. These internal controls should be in compliance with guidance in the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Organization should have controls in place to provide reasonable assurance drawdowns are accurate, existent, and complete.

Also, as a condition of receiving Federal awards, non-federal entities agree to maintain internal control to provide reasonable assurance of compliance with laws, regulations, and the provisions of grant agreements and contracts.

Condition Found

Drawdowns are not reviewed neither authorized by a supervisor to ensure accuracy and completeness of draws. Also, segregation of duties is nonexistent in the process between those that are processing the program transactions and those processing the request. The same person performed both procedures.

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2021-004 Cash Management – Drawdowns of funds – (continued)

Cause

The University, specifically the Institute division, does not have an internal control system designed to provide for the segregation of duties to ensure cash draw downs and indirect cost allocations prepared are reviewed by separate individuals.

Effect

Draw down requests and indirect cost allocations may be misstated. In addition, inadequate segregations of duties could make fraud prevention, detection and investigation difficult, which could possibly lead to misstated financial statements and regulatory punishments.

Questioned Cost

None.

Context

We examined three (3) drawdowns of program funds out of a total of six (6) drawdowns as follows:

<u>Date</u>	<u>Amount</u>
1/27/2021	\$ 128,717
5/28/2021	286,532
6/17/2021	<u>276,836</u>
	<u>\$ 692,085</u>

Condition was found in all the drawdowns examined. The total six (6) drawdowns totaled \$832,595.

Identification of a repeat finding

This is not a repeat finding.

Views of responsible officials and planned corrective actions

Management of the University agrees with this finding. Please refer to the corrective action plan on pages 73-82.

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2021-004 Cash Management – Drawdowns of funds – (continued)

Recommendation

We recommend that management creates processes and controls to ensure cash draw downs and indirect cost allocations are prepared and reviewed by separate individuals. Also, we recommend the creation of “Reimbursement Requisition Form” that is reviewed and authorized prior to request of drawdowns. This document will assist the safeguard of completeness and accuracy of the funds requested to the federal program.

Finding No. 2021-005 Subrecipient Monitoring – Review of audit reports

Federal Program

ALN 93.297 Teenage Pregnancy Prevention Program

Name of Federal Agency

U.S. Department of Health and Human Service

Pass-through Entity

N/A

Category

Compliance/Significant deficiency of internal controls over compliance

Compliance Requirements

As a pass-through entity, the University has certain requirements listed in 2 CFR section 200.332(d) related to monitoring activities of subrecipients, including review of audit reports and monitoring as necessary to ensure that the subaward is used for authorized purposes.

Condition Found

The University, specifically they Institute division, did not obtain or review the most recent single audit reports for subrecipients tested during the audit, nor documented their monitoring of the use of the subaward.

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2021-005 Subrecipient Monitoring – Review of audit reports – (continued)

Cause

The University did not have proper policies and procedures in place. Additionally, certain policies outlined in the fiscal policies manual were not adequately documented.

Effect

Inadequate monitoring procedures may not detect subrecipient noncompliance on a timely basis. Also, this condition deprives the University of taking any necessary enforcement action against noncompliant subrecipients as required 200.332(h).

Questioned Cost

None.

Context

We tested three (3) subrecipients during our audit procedures, noting that the most recent audit reports have not been obtained by the Institute before our request of the information.

Identification of a repeat finding

This is not a repeat finding.

Views of responsible officials and planned corrective actions

Management of the University agrees with this finding. Please refer to the corrective action plan on pages 73-82.

Recommendation

We recommend the University enhance its policies and procedures to ensure adequate oversight and monitoring of subrecipients throughout the subaward period, including reviewing audit reports on a timely basis, actively following up with subrecipients on any audit findings to verify corrective action is being taken. Also, we recommend the University to further educate the personnel on the federal requirements of subrecipient monitoring.

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2021-006 Misappropriation of Assets and Allowable Costs

Federal Program

ALN 93.297 Teenage Pregnancy Prevention Program
Federal Award Identification Number (FAIN) TP1AH000244

Name of Federal Agency

U.S. Department of Health and Human Service

Pass-through Entity

N/A

Category

Compliance/Material weakness of internal controls over compliance

Compliance Requirements

As per the Code of Federal Regulations (CFR) § 200.303 Internal controls, the non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Also, as described in guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States, Principle 8.02, “Management considers the types of fraud that can occur within the entity to provide a basis for identifying fraud risks. Types of fraud are as follows:

- Fraudulent financial reporting - Intentional misstatements or omissions of amounts or disclosures in financial statements to deceive financial statement users. This could include intentional alteration of accounting records, misrepresentation of transactions, or intentional misapplication of accounting principles.

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2021-006 Misappropriation of Assets and Allowable Costs – (continued)

Compliance Requirements- (continued)

- Misappropriation of assets - Theft of an entity's assets. This could include theft of property, embezzlement of receipts, or fraudulent payments.
- Corruption - Bribery and other illegal acts.

Furthermore, as established in § 200.404 Reasonable costs, a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:

- (a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.
- (b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.
- (c) Market prices for comparable goods or services for the geographic area.
- (d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.
- (e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

Also, § 200.447 Insurance and indemnification subpart (c) states that "actual losses which could have been covered by permissible insurance (through a self-insurance program or otherwise) are unallowable, unless expressly provided for in the Federal award."

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2021-006 Misappropriation of Assets and Allowable Costs – (continued)

Condition Found

In November 2020, the University, specifically the Institute division, underwent a robbery of computing devices that were destined for the use under the “Puerto Rico Optimal System Change (PROSA) for Teenage Pregnancy Prevention Program - Adolescent Health Programs” and the private grant Accessibility to Mental Health Services, PRI 20199SM from Oxfam America (Oxfam private grant). Sixteen (16) tablets were stolen from the vicinity Instituto of Tercera Misión (the Institute) of which, nine (9) tablets corresponded to PROSA and seven (7) tablets corresponded to the Oxfam private grant.

The following internal control and compliance deficiencies were noted:

- The purchase order of the tablets was not approved and signed by the Chief Financial Officer due to lack of proper documentation as required by the University’s normative letter no. 2020-04 Procedures for the Authorization of Purchase of Goods and Services (the purchase order lacked the appendix A form completed and signed by the information technology department (IT)). Instead of correcting the purchase order and completing the required documentation to obtain the approval of the CFO as required for purchases over \$10,000, the Institute cancelled the purchase order and divided the total cost of the acquisition of the tablets into monthly purchase orders for the installments of the tablets, thus, avoiding the required authorization process. Furthermore, the CFO instructed the personnel of the Institute that, after the proper documentation of the purchase was completed and approved by him, that the monthly payments for the tablets should be executed by electronic payment instead of using a credit card, as established in the University’s normative letter no. 2020-08, Procedures for the Granting, Use and Management of Corporate Credit Card. However, the Institute executed monthly payments with the credit card without further approval or discussion with the CFO.
- The tablets acquired were not stored in a secure location. The tablets were left in an office to which all the employees of the Institute, outside contractors with entry code to the facilities and maintenance personnel could had unauthorized access. Thus, this allowed the theft of the devices without forcing any entry or locks. All the employees of the Institute have the same entry code for the facilities and there are no cameras in place. The tablets were received by the Institute on October 28, 2020, and the employees of the Institute became aware of the missing tablets on November 12, 2020.
- The theft of the computing devices was not informed to the top management of the University. The lack of communication to the top management of the University inhibits the entity from giving further instructions for investigating the event, fraud inquiry (as described in the Institutional Policy against Economic Fraud), recovery of the costs for the stolen equipment through insurance claim, notification to the federal and private grantors, managing of the requests for federal funds regarding the stolen computing devices, or the proper follow up to the matter.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2021-006 Misappropriation of Assets and Allowable Costs – (continued)

Condition Found – (continued)

- After coming to knowledge of the robbery of the tablets, the Institute executed the payments for the monthly costs of the tablets, internet service and other surcharges and fees and claimed such expenses to the federal award PROSA and to the Oxfam private grant.
- The Institute became aware of the theft on November 12, 2020. However, a formal claim to the insurance carrier of the University for the cost of the stolen items was not completed until December 7, 2021, over a year after the event took place.
- There is no formal documentation or written communication evidencing the notification to the federal and private grantors regarding the event of robbery. Nonetheless, the management of the Institute represented that the federal and private grantors were informed about the incident on May 17, 2021 (six months after the robbery) and April 27, 2021 (five months after the robbery), respectively.

Moreover, as a result of the expressions of two former employees of the Institute in their exit interviews with human resources, the top management of the University subcontracted a certified public accountants and business advisors' firm (the CPA firm) to perform an independent assessment of internal controls related to the administration of federal funds received by the Institute, whose task focused on evaluating possible non-compliance with the policies and procedures related to the process of purchasing of goods and services made using federal funds. Due to this process, the top management of the University became aware of the abovementioned incident of robbery. The assessment performed consisted of two phases. Among the conclusions of the second phase of the assessment, the following deficiencies were indicated:

- lack of inventory and monitoring of equipment purchased
- lack of procedures in relation to the receipt and custody of equipment purchased
- the notification of the robbery to the federal program was made through a phone call instead of in writing
- lack of supervision in relation to the projects receiving federal funds
- lack of knowledge and expertise from the management of the Institute in relation to the administration of federal awards and nonexistence of internal audit procedures through the year
- alteration of documentation requested in samples of test of compliance and internal controls over compliance for the single audit

These findings are consistent with the findings pointed out in the first phase of the assessment performed by the CPA firm on which, the CPA firm concluded that they found:

- irregularities in the purchasing process, consisting mainly of purchases made without the required quotes or purchase orders
- hiring professional services without knowing the selection criteria and their qualification

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2021-006 Misappropriation of Assets and Allowable Costs – (continued)

Condition Found – (continued)

- alteration of the purchase orders that did not pass the sieve of the required authorization
- lack of inventory of purchased equipment
- record of transactions in a period other than the one to which they correspond, which affects the budgeted items of federal funds that are received
- lack of supervision in the processes related to the administration of projects that receive federal funds
- accounts reconciliations processes that are not carried out (accounts payable, suppliers and credit cards)
- management personnel lacking knowledge and experience related to the administration of federal funds
- lack of internal audit procedures through the year and management staff resistance to listening to suggestions for improvement and changes in the administrative processes

Cause

The cause is mainly related to the fact that the instance of robbery is an isolated case, and it is the first time that the Institute is object of a robbery and thus, there is lack of knowledge of laws and regulations that govern the federal programs as well as internal controls and corrective actions regarding this matter. Also, the deficiencies noted by the CPA firm on their independent assessment point out to a possible lack of ethical culture among some of the personnel.

Effect

The University is not properly following the regulations. Unless significant changes are implemented, there is an open opportunity for fraudulent activities. Also, the grantor was deprived of timely taking any action that it understood to be pertinent in the program.

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Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2021-006 Misappropriation of Assets and Allowable Costs – (continued)

Questioned Cost

\$2,319.11 claimed to the federal award (ALN 93.297, Federal Award Identification Number (FAIN) TP1AH000244) and \$2,824.56 claimed to the private grantor, computed as follows:

Total Paid in				Total Paid in			
<u>Item</u>	<u>Tablet Serires No.</u>	<u>Project</u>	<u>Montly Bills</u>	<u>Item</u>	<u>Tablet Serires No.</u>	<u>Project</u>	<u>Montly Bills</u>
1	787-221-7169	PROSA	\$ 358.92	10	787-430-4175	Oxfam	375.91
2	787-221-8185	PROSA	358.92	11	787-430-4246	Oxfam	375.91
3	787-221-8961	PROSA	358.92	12	787-430-4232	Oxfam	375.91
4	787-221-8975	PROSA	358.92	13	787-430-4191	Oxfam	375.91
5	787-600-4358	PROSA	358.92	14	787-430-4247	Oxfam	375.91
6	787-600-7132	PROSA	358.92	15	787-430-4248	Oxfam	375.91
7	787-221-4369	PROSA	-	16	787-430-4241	Oxfam	375.91
8	787-221-4516	PROSA	-				-
9	787-600-7183	PROSA	-				-
Subtotal			2,153.52	Subtotal			2,631.37
Taxes			165.59	Taxes			193.19
Total for PROSA			<u>\$ 2,319.11</u>	Total for Oxfam			<u>\$ 2,824.56</u>

Context

This audit finding represents an isolated instance.

Identification of a repeat finding

This is not a repeat finding.

Views of responsible officials and planned corrective actions

The University accepts the finding. The Third Mission Institute does not agree with the finding. Please refer to the corrective action plan on pages 73-82.

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2021-006 Misappropriation of Assets and Allowable Costs – (continued)

Recommendation

We recommend that the University develops a written policy that details actions to be taken by the employees in cases of theft and crimes against the University's property. Also, the University should communicate in writing about this incident to the federal and private grantors and establish corrective actions for the funds claimed to the grantors regarding the stolen computing devices. Finally, we recommend to the University to conclude the investigation of the abovementioned incident and other deficiencies or irregularities noted in the independent assessment of internal controls related to the administration of federal funds, in order to undertake legal and disciplinary actions.

Finding No. 2021-007 Allowable Cost – Cost Principle (Payroll Test)

Federal Program

ALN 93.297 Teenage Pregnancy Prevention Program

Name of Federal Agency

U.S. Department of Health and Human Service

Pass-through Entity

N/A

Category

Compliance/ Material weakness of internal controls over compliance

Compliance Requirements

Section 200.405 of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards indicates that a cost is allocable to a particular federal award if the goods or services involved are chargeable or assignable to that federal award or cost objective in accordance with relative benefits received. This standard is met, among other things, if the cost charged is incurred specifically for the federal award.

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2021-007 Allowable Cost – Cost Principle (Payroll Test) – (continued)

Compliance Requirements – (continued)

Also, under cost principles established by 2 CFR Section 200.430, charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable and properly allocated and be incorporated into the official records of the non-Federal entity.

Condition Found

For the payroll paid on April 16, 2021, the approved time and attendance reports did not agree to what was reflected within the payroll system and thus time charged and paid was not based on actual hours. No internal control was identified that detected such misstatement.

Cause

Lack of monitoring of actual hours incurred of federal share of employee.

Effect

The payroll paid to the employee exceeded the compensation for actual services rendered to the federal program in this pay period. Such condition may cause the federal grantor to issue warnings and/or impose penalties to the University.

Questioned Cost

None since the hours worked were adjusted in the following petition of federal funds.

Context

This condition was observed on one (1) employee out of the five (5) employees included on the program payroll. Fund petitions are made monthly and includes two paid biweekly payrolls. For the other biweekly payroll, the employee worked on the program more hours than those charged to the federal program. Therefore, there is no questioned cost.

Identification of a repeat finding

This is not a repeat finding.

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2021-007 Allowable Cost – Cost Principle (Payroll Test) – (continued)

Views of responsible officials and planned corrective actions

Management of the University agrees with this finding. Please refer to the corrective action plan on pages 73-82.

Recommendation

The Institute's program staff and management should ensure that the amounts charged to the federal award was indeed to cover time devoted to such federal program. A control should be in place where a reimbursement requisition form is completed, reviewed and signed by the project and finance directors, before submission of request of funds.

Finding No. 2021-008 Allowable Cost – Cost Principle (Payroll Rates)

Federal Program

ALN 93.297	Teenage Pregnancy Prevention Program
ALN 93.556	Promoting Safe and Stable Families

Name of Federal Agency

U.S. Department of Health and Human Service

Pass-through Entity

N/A

Category

Compliance/Material weakness of internal controls over compliance

Compliance Requirements

Under cost principles established by 2 CFR Section 200.430, charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable and properly allocated and be incorporated into the official records of the non-Federal entity.

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2021-008 Allowable Cost – Cost Principle (Payroll Rates) – (continued)

Condition Found

For several payrolls paid under the Teenage Pregnancy Prevention Program, the University charged to the federal award and paid an amount greater than the actual contracted amount with one employee as follows:

<u>Payroll period</u>	<u>Amount contracted</u>	<u>Amount charged</u>	<u>Difference</u>
1/8/2021	\$ 495.00	\$ 501.17	\$ 6.17
1/22/2021	495.00	501.17	6.17
2/5/2021	495.00	501.17	6.17
2/19/2021	495.00	501.17	6.17
3/5/2021	495.00	501.17	6.17
3/19/2021	495.00	501.17	6.17
4/2/2021	495.00	501.17	6.17
4/16/2021	495.00	501.17	6.17
4/30/2021	495.00	501.17	6.17
5/14/2021	495.00	501.17	6.17
5/28/2021	495.00	501.17	6.17
6/11/2021	495.00	501.17	6.17
6/25/2021	495.00	501.17	6.17
7/9/2021	<u>396.00</u>	<u>501.17</u>	<u>105.17</u>
	<u>\$ 6,831.00</u>	<u>\$ 7,016.38</u>	<u>\$ 185.38</u>

Retroactive adjustments were made to the employee payments because the contract for services was signed after the effective date.

Furthermore, in another similar case with another employee of Promoting Safe and Stable Families, managed by the Institute, on the payroll paid on May 14, 2021, the University paid to the employee more than the amount contracted for the selected payment period. Retroactive adjustments were made to employee payments because the contract was signed after its effective date. This condition occurred on several payrolls and totaled an underpayment to the employee of approximately \$5,378 of payrolls paid since July 10, 2020 through June 25, 2021.

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2021-008 Allowable Cost – Cost Principle (Payroll Rates) – (continued)

Cause

Pay rate of employee on payroll software is miscalculated and adjusted retroactively because contracts are signed after their effective date and because of the time gap of the communication between the Institute and the human resources department.

Effect

The amount charged to the federal program and paid to employee exceeded compensation contracted with employee. If the compensation costs allocated to the grant cannot be supported in accordance with the Uniform Guidance, the granting agency could determine that these costs are not allowable. Such condition may cause the federal grantor to issue warnings and/or impose penalties to the University.

Questioned Cost

None since the University is making retroactive adjustments to the payroll and not charging the federal programs excess over the amounts contracted with the employees.

Context

As part of our tests of compliance with allowable costs and cost principles, we selected sixty (60) expenses of the Teenage Pregnancy Prevention Program (PROSA) amounting to \$179,354, of which seven (7) items amounting to \$22,285 were related to payroll paid under the program. Our test disclosed one (1) instance where the employee pay rate per payroll paid differs from the pay rate contracted for the period examined.

Also, as part of our tests of compliance with allowable costs and cost principles, we selected forty-one (41) expenses of the Promoting Safe and Stable Families program amounting to \$246,784, of which one (1) item amounting to \$2,270 was related to payroll paid under the program. Our test disclosed one (1) instance where the employee pay rate per payroll paid differs from the pay rate contracted for the period examined.

Identification of a repeat finding

This is not a repeat finding.

Views of responsible officials and planned corrective actions

Management of the University agrees with this finding. Please refer to the corrective action plan on pages 73-82.

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2021-008 Allowable Cost – Cost Principle (Payroll Rates) – (continued)

Recommendation

The University's program staff and management should ensure that the amounts charged to the federal award and disbursed to the employees are accurate and under the correct contract rates. A control should be in place where a reimbursement requisition form is completed, reviewed and signed by the project and finance directors, before submission of request of funds.

Furthermore, the University should ascertain that payroll disbursements are being made for amounts contracted and that such contracts are properly approved and effective at the time of the disbursement.

PART V

Universidad Carlos Albizu, Inc.

Corrective Action Plan

Universidad Carlos Albizu, Inc.

Corrective Action Plan

For the Year Ended June 30, 2021

Finding No. 2021-001 Deviation from Guidelines Established by the Institutional Purchasing Policy

Condition found:

During our audit procedures on internal controls of the University, we tested a sample of sixty (60) purchase orders, and we noted the following conditions:

- Two appendix A forms did not have date of approval signature

Institution Response:

These events were isolated cases. The lack of signature's date was mainly related to the use of a manual requisition process instead of the ordinary system tool for signatures due to the special nature of the purchases. Nonetheless, the documentation for these cases was duly completed and signed on a timely basis before disbursements.

Corrective Action Plan:

The Institution management will re-train purchasing staff who use manual process to ensure that the date of signature is included in the purchasing authorization form.

Name (s) of the Contact Person (s) Responsible for Corrective Action:

Ms. Carmen Pérez, Institutional Purchasing Official

Anticipated Completion Date:

January 2022

Finding No. 2021-002 Internal Controls Over Expenditures of Federal Awards

Condition found:

During our examination of the expenses of the projects carried out by Instituto Tercera Misión (the Institute) funded by federal programs "Promoting Safe and Stable Families - Family First Prevention Act Transition Grant" (Family First) and "Puerto Rico Optimal System Change (PROSA) for Teenage Pregnancy Prevention Program - Adolescent Health Programs", we tested a sample of one hundred one (101) purchases and observed the following conditions:

- Six (6) requisitions were not created for six (6) different purchases. They were created after the expense was incurred.

Universidad Carlos Albizu, Inc.

Corrective Action Plan (Continued)

For the Year Ended June 30, 2021

- Thirty-three (33) appendix A forms did not include the date of the signatures which is an element required by the form.
- For one (1) transaction, the required appendix A was not completed.

Institution Response:

The management of Third Mission Institute will ensure that all disbursements include all the documentation, date, and signatures required in accordance with the University's policy before executing and paying for purchases.

Corrective Action Plan:

To meet the growth in business volume experienced by the Institute, the accounts payable functions have been segregated. These tasks were carried out by the Administration and Finance Associate of the Institute. The Institute created a new position for Administrative Support-Accounts Payable under the supervision of its Accounting unit on August 2021. In addition, the Institute management will re-train the personnel to ensure that all disbursements include the required documentation.

Name (s) of the Contact Person (s) Responsible for Corrective Action:

The Institute Executive Committee: Mrs. Marizaida Sánchez Cesareo, Mr. Héctor Colón and Mrs. Idalie Hernández Gierbolini.

Anticipated Completion Date:

January 2022

Finding No. 2021- 003 Special Tests and Provisions – Disbursements to or on Behalf of Students

Condition found:

During our evaluation of compliance with these requirements, we noted one (1) instance, or two percent (2%) of the sample selected, in which the University failed to return the corresponding refund within 14 days' time frame from the date the University determined that the student had a Federal Student Aid (FSA) credit balance. A total of twenty-two (22) days elapsed from the date the University determined that the student had a FSA credit balance.

Universidad Carlos Albizu, Inc.

Corrective Action Plan (Continued)

For the Year Ended June 30, 2021

Institution Response:

The institution accepts the finding, however, it is necessary to stress that this is an isolated case directly related to the National Declared Emergency. This event occurred during a period of lockdown due to COVID-19 that precluded the Campus from contacting the student to get bank account information. After multiple attempts, the Campus finally were able to contact the student and get the correct information and initiated the EFT process. Our auditors became aware of the challenges related to this event and included comments to this effect under the Cause section.

Corrective Action Plan:

The University will continue its internal monitoring audit process through the Institutional Compliance Officer. A re-training process has been provided to the Bursar's Office to strengthen the Cash Management disbursement process and to develop alternate processing under extremely unusual circumstances.

Name (s) of the Contact Person (s) Responsible for Corrective Action:

Mr. Hector Peña, Finance Director for the San Juan Campus

Anticipated Completion Date:

January 2022

Finding No. 2021-004 Cash Management – Drawdowns of funds

Condition found:

Drawdowns are not reviewed neither authorized by a supervisor to ensure accuracy and completeness of draws. Also, segregation of duties is nonexistent in the process between those that are processing the program transactions and those processing the request. The same person performed both procedures.

Institution Response:

The management of the Third Mission Institute division will segregate the relevant processes and controls to ensure that drawdown reimbursement requests as well as indirect cost allocations are prepared and reviewed by persons in separate positions.

Universidad Carlos Albizu, Inc.

Corrective Action Plan (Continued)

For the Year Ended June 30, 2021

Condition found:

The Third Mission Institute will develop a written procedure, which will consist of a "Reimbursement Request Form" that will be reviewed, authorized, and signed by the Director of Finance and Administration prior to request the drawdowns. On this process, the Fiscal Coordinator will complete and prepare the Reimbursement Request Form with the breakdown of all the expenses to be reimbursed, while the Project Accountant will certify it. Finally, the Director of Administration and Finance of the ITM will authorize the drawdown to proceed. Said procedure will be audited every four months to guarantee compliance. This verification will help safeguard the integrity and accuracy of funds requested from the federal program.

Name (s) of the Contact Person (s) Responsible for Corrective Action:

The Institute Executive Committee: Mrs. Marizaida Sánchez Cesareo, Mr. Héctor Colón and Mrs. Idalie Hernández Gierbolini.

Anticipated Completion Date:

January 2022

Finding No. 2021-005 Subrecipient Monitoring – Review of audit reports

Condition found:

The University, specifically the Institute division, did not obtain or review the most recent single audit reports for subrecipients tested during the audit, nor documented their monitoring of the use of the subaward.

Institution Response:

The Third Mission Institute division did not obtain and review single audit reports of subrecipients to monitor their compliance with the federal program. This condition was mainly due to the lack of procedures to review and monitor single audit reports of subrecipients during the grant period.

Corrective Action Plan:

The Third Mission Institute will create a procedures manual for subrecipients, to ensure adequate supervision and follow-up of subrecipients during the grant period. The Institute will document the review of the audit reports in a timely manner and will follow up with subrecipients of any findings to verify that corrective action is being taken.

Universidad Carlos Albizu, Inc.

Corrective Action Plan (Continued)

For the Year Ended June 30, 2021

Name (s) of the Contact Person (s) Responsible for Corrective Action:

The Institute Executive Committee: Mrs. Marizaida Sánchez Cesareo, Mr. Héctor Colón and Mrs. Idalie Hernández Gierbolini.

Anticipated Completion Date:

January 2022

Finding No. 2021-006 Misappropriation of Assets and Allowance Costs

Condition found:

In November 2020, the University, specifically the Institute division, underwent a robbery of computing devices that were destined for the use under the “Puerto Rico Optimal System Change (PROSA) for Teenage Pregnancy Prevention Program - Adolescent Health Programs” and the private grant Accessibility to Mental Health Services, PRI 20199SM from Oxfam America (Oxfam private grant). Sixteen (16) tablets were stolen from the vicinity Instituto of Tercera Misión (the Institute) of which, nine (9) tablets corresponded to PROSA and seven (7) tablets corresponded to the Oxfam private grant.

The following internal control and compliance deficiencies were noted:

- The purchase order of the tablets was not approved and signed by the Chief Financial Officer due to lack of proper documentation as required by the University’s normative letter no. 2020-04 Procedures for the Authorization of Purchase of Goods and Services (the purchase order lacked the appendix A form completed and signed by the information technology department (IT)). Instead of correcting the purchase order and completing the required documentation to obtain the approval of the CFO as required for purchases over \$10,000, the Institute cancelled the purchase order and divided the total cost of the acquisition of the tablets into monthly purchase orders for the installments of the tablets, thus, avoiding the required authorization process. Furthermore, the CFO instructed the personnel of the Institute that, after the proper documentation of the purchase was completed and approved by him, that the monthly payments for the tablets should be executed by electronic payment instead of using a credit card, as established in the University’s normative letter no. 2020-08, Procedures for the Granting, Use and Management of Corporate Credit Card. However, the Institute executed monthly payments with the credit card without further approval or discussion with the CFO.

Universidad Carlos Albizu, Inc.

Corrective Action Plan (Continued)

For the Year Ended June 30, 2021

- The tablets acquired were not stored in a secure location. The tablets were left in an office to which all the employees of the Institute, outside contractors with entry code to the facilities and maintenance personnel could have had unauthorized access. Thus, this allowed the theft of the devices without forcing any entry or locks. All the employees of the Institute have the same entry code for the facilities and there are no cameras in place. The tablets were received by the Institute on October 28, 2020, and the employees of the Institute became aware of the missing tablets on November 12, 2020.
- The theft of the computing devices was not informed to the top management of the University. The lack of communication to the top management of the University inhibits the entity from giving further instructions for investigating the event, fraud inquiry (as described in the Institutional Policy against Economic Fraud), recovery of the costs for the stolen equipment through insurance claim, notification to the federal and private grantors, managing of the requests for federal funds regarding the stolen computing devices, or the proper follow up to the matter.
- After coming to knowledge of the robbery of the tablets, the Institute executed the payments for the monthly costs of the tablets, internet service and other surcharges and fees and claimed such expenses to the federal award PROSA and to the Oxfam private grant.
- The Institute became aware of the theft on November 12, 2020. However, a formal claim to the insurance carrier of the University for the cost of the stolen items was not completed until December 7, 2021, over a year after the event took place.
- There is no formal documentation or written communication evidencing the notification to the federal and private grantors regarding the event of robbery. Nonetheless, the management of the Institute represented that the federal and private grantors were informed about the incident on May 17, 2021 (six months after the robbery) and April 27, 2021 (five months after the robbery), respectively.

Moreover, as a result of the expressions of two former employees of the Institute in their exit interviews with human resources, the top management of the University subcontracted a certified public accountants and business advisors' firm (the CPA firm) to perform an independent assessment of internal controls related to the administration of federal funds received by the Institute, whose task focused on evaluating possible non-compliance with the policies and procedures related to the process of purchasing of goods and services made using federal funds. Due to this process, the top management of the University became aware of the abovementioned incident of robbery. The assessment performed consisted of two phases. Among the conclusions of the second phase of the assessment, the following deficiencies were indicated:

- lack of inventory and monitoring of equipment purchased
- lack of procedures in relation to the receipt and custody of equipment purchased
- the notification of the robbery to the federal program was made through a phone call instead of in writing
- lack of supervision in relation to the projects receiving federal funds
- lack of knowledge and expertise from the management of the Institute in relation to the administration of federal awards and nonexistence of internal audit procedures through the year
- alteration of documentation requested in samples of test of compliance and internal controls over compliance for the single audit

Universidad Carlos Albizu, Inc.

Corrective Action Plan (Continued)

For the Year Ended June 30, 2021

These findings are consistent with the findings pointed out in the first phase of the assessment performed by the CPA firm on which, the CPA firm concluded that they found:

- irregularities in the purchasing process, consisting mainly of purchases made without the required quotes or purchase orders
- hiring professional services without knowing the selection criteria and their qualification
- alteration of the purchase orders that did not pass the sieve of the required authorization
- lack of inventory of purchased equipment
- record of transactions in a period other than the one to which they correspond, which affects the budgeted items of federal funds that are received
- lack of supervision in the processes related to the administration of projects that receive federal funds
- accounts reconciliations processes that are not carried out (accounts payable, suppliers and credit cards)
- management personnel lacking knowledge and experience related to the administration of federal funds
- lack of internal audit procedures through the year and management staff resistance to listening to suggestions for improvement and changes in the administrative processes

Institution Response:

This was an isolated case. The University recognizes that the event was not timely reported to the funder or the insurance.

Corrective Action Plan:

The University will develop a written policy that details actions to be taken by the employees in cases of theft and crimes against the University's property. The Institute management will also notify in writing about this incident to the federal program to receive instructions and determine future steps. Besides, the University will determine the necessary disciplinary actions related to this incident.

Name (s) of the Contact Person (s) Responsible for Corrective Action:

The Institute Executive Committee: Mrs. Marizaida Sánchez Cesareo, Mr. Héctor Colón, and Mrs. Idalie Hernández Gierbolini to notify federal program. Mr. Luis Camacho, Institutional IT Director, for the written policy, and Mrs. Nancy González, Institutional Director of Human Resources for human resources matters.

Anticipated Completion Date:

January 2022

Universidad Carlos Albizu, Inc.

Corrective Action Plan (Continued)

For the Year Ended June 30, 2021

Finding No. 2021-007 Allowable Cost – Cost Principle (Payroll Test)

Condition found:

For the payroll paid on April 16, 2021, the Institute division charged to the federal award an amount greater than the actual expense incurred. Approved time and attendance reports did not agree to what was reflected within the system and thus time charged and paid was not based on actual hours. No internal control was identified that detected such misstatement.

Institution Response:

This isolated incident, as corroborated, did not imply a higher payment than was prescribed to the employee, since the amount requested from the grantor was the correct one.

Corrective Action Plan:

The Leadership team was re-trained about the importance of verifying that the employee complies with the hours assigned to the project prior to signing. In addition, the Institute fiscal coordinators and accountants have been tasked with reviewing the hours marked and the signature of the supervisor prior to intervening with a time report. A reimbursement request form will also be developed prior to submitting the request for funds. This form will be reviewed, authorized, and signed by the Director of Finance and Administration prior to request the funds to ensure their accuracy. Also, the Third Mission Institute, through its Associate in Administration & Human Resources and Assistant in Administration & Human Resources, as internal control, will monitor every four months the timesheets to ensure that they reflect the hours as contracted.

Name (s) of the Contact Person (s) Responsible for Corrective Action:

The Institute Executive Committee: Mrs. Marizaida Sánchez Cesareo, Mr. Héctor Colón and Mrs. Idalie Hernández Gierbolini.

Anticipated Completion Date:

January 2022

Universidad Carlos Albizu, Inc.

Corrective Action Plan (Continued)

For the Year Ended June 30, 2021

Finding No. 2021-008 Allowable Cost – Cost Principle (Payroll Rates)

Condition found:

For several payrolls paid under the Teenage Pregnancy Prevention Program, the University charged to the federal award and paid an amount greater than the actual contracted amount with one employee as follows:

<u>Payroll period</u>	<u>Amount contracted</u>	<u>Amount charged</u>	<u>Difference</u>
1/8/2021	\$ 495.00	\$ 501.17	\$ 6.17
1/22/2021	495.00	501.17	6.17
2/5/2021	495.00	501.17	6.17
2/19/2021	495.00	501.17	6.17
3/5/2021	495.00	501.17	6.17
3/19/2021	495.00	501.17	6.17
4/2/2021	495.00	501.17	6.17
4/16/2021	495.00	501.17	6.17
4/30/2021	495.00	501.17	6.17
5/14/2021	495.00	501.17	6.17
5/28/2021	495.00	501.17	6.17
6/11/2021	495.00	501.17	6.17
6/25/2021	495.00	501.17	6.17
7/9/2021	<u>396.00</u>	<u>501.17</u>	<u>105.17</u>
	<u>\$ 6,831.00</u>	<u>\$7,016.38</u>	<u>\$ 185.38</u>

Retroactive adjustments were made to the employee payments because the contract for services was signed after the effective date.

Furthermore, in another similar case with another employee of Promoting Safe and Stable Families, managed by the Institute, on the payroll paid on May 14, 2021, the University paid to the employee more than the amount contracted for the selected payment period. Retroactive adjustments were made to employee payments because the contracts were signed after their effective period. This condition occurred on several payrolls and totaled an underpayment to the employee of approximately \$5,378 of payrolls paid since July 10, 2020 through June 25, 2021.

Universidad Carlos Albizu, Inc.

Corrective Action Plan (Continued)

For the Year Ended June 30, 2021

Institution Response:

This condition was due to the miscommunication between the program staff and the human resources official.

Corrective Action Plan:

The Payroll Officer of Human Resources will be re-trained to ensure the accuracy of data entry. The Third Mission Institute associate of administration and human resources will review and confirm the accuracy of the request submitted by the Payroll Officer. The Third Mission Institute accountant will ensure that program reimbursement requests match with payroll system prior to drawdowns. A reimbursement request form will be developed prior to submitting the request for funds. This form will be reviewed, authorized, and signed by the Director of Finance and Administration prior to request the funds to ensure their accuracy and concordance with the system.

Name (s) of the Contact Person (s) Responsible for Corrective Action:

Ms. Luisa García, Payroll Officer, Mrs. Carmen Acevedo, Human Resources Director, and Mr. Julio Santana for the San Juan Campus. The Institute Executive Committee: Mrs. Marizaida Sánchez Cesareo, Mr. Héctor Colón and Mrs. Idalie Hernández Gierbolini; and Mr. Luis Rodriguez Charles, Staff Accountant, and Ms. Odalie Negrón, Associate of Administration and Human Resources for the Third Mission Institute.

Anticipated Completion Date:

January 2022

PART VI

Universidad Carlos Albizu, Inc.

Summary Schedule of Prior Year Audit Findings and Questioned Costs

Universidad Carlos Albizu, Inc.

Schedule of Prior Year Audit Findings and Questioned Costs

For the Year Ended June 30, 2021

Finding Number	Program	Fiscal Year	Noncompliance Condition:	Corrective Action	Questioned Costs	Status	Comments
2020-001	N/A	Year ended June 30, 2020	<p>During our examination of the expenses of the projects carried out by Instituto Tercera Misión (the Institute) funded by federal programs "Substance Abuse and Mental Health Services Projects of Regional and National Significance" and "Title IV-E Foster Care", we tested a sample of thirty (30) transactions and observed the following conditions:</p> <ul style="list-style-type: none"> • Two (2) requisitions were not created for two (2) different purchases • One of the required signatures (the signature of the director of the department requesting the purchase) was missing on one requisition <p>Furthermore, the two purchases were paid to the suppliers without the proper authorizations of purchases that are documented in the requisitions and without the three-way match of requisition, purchase order and invoice for the expense. Moreover, on our audit procedures on Equipment Real Property Management compliance requirement of the "Substance Abuse and Mental Health Services" program, we noted two additional purchases of equipment where the requisitions were missing.</p>	In order to improve this area, the Institute, as of October 1st, hired a purchasing officer, two fiscal coordinators and assigned a person for accounting support. In addition, the Institute will retrain all the personnel of the administrative team that interacts in the implementation of these procedures. The Institute Policies and Procedures Committee will be in charge of the training to ensure all disbursements include the required documentation.	N/A	Not Corrected.	The University implemented the Corrective Action Plan as described in the Prior Year Audit. However, the finding was repeated this year.
2020-002	N/A	Year ended June 30, 2020	<p>During our examination of the accounts receivable from contracts of Instituto de Tercera Misión (the Institute) our audit procedures disclosed inadequate support of the accounts receivable from contracts of the Institute balance, as of the statement of financial position date. Our procedures further disclosed that there was not a process in place to reconcile cash receipts to the applicable contract account receivable. The lack of reconciliation led to the inability to determine accurate accounts receivable balances and to assess accounts aging.</p>	<p>The Third Mission Institute Accounting Department has put in place a variety of internal control to maintain the accuracy of the Schedule of Expenditures of Federal Awards in connection with the Account Receivable Aging. The Institute will ensure all records of billings and collections per contract of the Institute are duly recorded and reconciled monthly. The accounting department developed an aging report to analyze invoices and payments therefore having robust controls to follow up on every invoice. Also, additional personnel was hired as of October 1st including another Accountant, 2 Fiscal Coordinators and one Accounting Clerk. These new personnel will enhance the accounting department performance in order to ensure the accuracy of all financial information.</p>	N/A	Corrected.	The University implemented the Corrective Action Plan as described in the Prior Year Audit.
2020-003	CFDA 84.063 Federal Pell Grant Program CFDA 84.268 Federal Direct Student Loans Program	Year ended June 30, 2020	<p>As part of our testing of forty (40) students who graduated and/or withdrew during 2020, we noted the following instances of non-compliance: four (4) students for which the University did not report to the National Student Loan Data System (NSLDS) the student status change within the required 60 days' period and; two (2) students, among the four (4) not reported within the required 60 days, for which the University did not report accurately the student status change to the NSLDS.</p>	<p>With the assistance of the Information Technology Department, the University has revised all setups for academic programs included in the Enrollment Report processing and proceeded to delete any incorrect information in the database of the programs for this report. The University will revise quarterly the information of the programs included in the Enrollment Report including the program length to minimize any recurrence of this finding. Also, the University has proceeded to provide training to the Registrar Office in the procedure to identify the correct withdrawal date and the way this date is reflected in the Enrollment Status Report.</p>	N/A	Corrected.	The University implemented the Corrective Action Plan as described in the Prior Year Audit.

Universidad Carlos Albizu, Inc.

Schedule of Prior Year Audit Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2021

Finding Number	Program	Fiscal Year	Noncompliance Condition:	Corrective Action	Questioned Costs	Status	Comments
2020-004	CFDA 84.268 Federal Direct Student Loans Program	Year ended June 30, 2020	In testing compliance with the return of Title IV funds requirement, we noted one (1) case, or four percent (4%), of the sample selected, in which the University failed to determine the withdrawal date no later than 30 days after the end of period of enrollment, and subsequently failed to return the total corresponding refund within 45 days from the date the University determined that the student withdrew, dropped-out, or failed to attend to the University.	The University will continue its internal monitoring process to assess the time to calculate the student withdrawals. A re-training process has been provided to the Registrar and Financial Aid Officers to strengthen the withdrawal process and to develop alternate processing to monitor withdrawals under extremely unusual circumstances.	None.	Corrected.	The University implemented the Corrective Action Plan as described in the Prior Year Audit.
2020-005	CFDA 84.268 Federal Direct Student Loans Program	Year ended June 30, 2020	In testing compliance with the requirements for disbursements under the Federal Direct Student Loan program (Direct Loans), we selected fifty-two (52) participants from a total population of two thousand three hundred eighteen (2,318) students who received Direct Loans, and examined the related disbursement notifications for a selected term. During our evaluation of compliance with these requirements, we noted five (5) instances, or ten percent (10%) of the sample selected, in which the University failed to properly include all the required information on the loan disbursement notifications.	The University has proceeded to establish a procedure where at the beginning of each term the disclosure notification regarding the Federal Direct Student Loans (DL) disbursements is revised to corroborate that all information is included in the DL disbursement communication.	None.	Corrected.	The University implemented the Corrective Action Plan as described in the Prior Year Audit.
2020-006	CFDA 84.425E Higher Education Emergency Relief Fund - CARES Act	Year ended June 30, 2020	During April 2020, the University was awarded \$1,453,598 under the Higher Education Emergency Relief Funds (HEERF) of the Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act. As of June 30, 2020, the University had drawn-down HEERF funds amounting to \$882,360. HEERF funds amounting to \$821,600 were allocated to students to provide emergency financial aid related to the disruption of campus operations due to coronavirus, and funds amounting to \$60,760, of the institutional portion of the HEERF grant, were allocated to a multi station program. The funds for the multi station program amounting to \$60,760 were received on May 26, 2020, however, as of June 30, 2020, the funds have not been disbursed.	The University will continue its constant planning and monitoring process of cash management. The institution will establish policies and procedures to request Federal funds to enhance cash management in accordance with Federal guidelines. Specifically, the procedures will consider a reimbursement methodology under uncontrollable and uncertain environments.	None.	Corrected.	The University implemented the Corrective Action Plan as described in the Prior Year Audit.