

**OFFICE OF THE GOVERNOR  
OF THE COMMONWEALTH OF PUERTO RICO**

Audited Financial Statement

For the Year Ended June 30, 2010

Draft

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## INDEPENDENT AUDITORS' REPORT

Honorable Luis Guillermo Fortuño Burset  
Governor  
**Office of the Governor**  
San Juan, Puerto Rico

We have audited the accompanying statement of receipts and disbursements of the **Office of the Governor of the Commonwealth of Puerto Rico** (the Office) for the year ended June 30, 2010. This financial statement is the responsibility of the Office's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 - Basis of Accounting on page 9, the financial statement was prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts and disbursements of the **Office of the Governor of the Commonwealth of Puerto Rico** for the year ended June 30, 2010, in conformity with the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2012, on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 6 be presented to supplement the basic financial statement. Such information, although not a part of the basic financial statement, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statement, and other knowledge we obtained during our audit of the basic financial statement. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinion on the Office's Statement of Receipts and Disbursements as a whole. The accompanying Schedule of Expenditures of Federal Awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is also not a required part of the financial statement. 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 statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement, or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statement as a whole.

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San Juan, Puerto Rico  
September 28, 2012  
2012-10-70

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**OFFICE OF THE GOVERNOR  
OF THE COMMONWEALTH OF PUERTO RICO**

Management Discussion and Analysis

For the Year Ended June 30, 2010

**Introduction**

The management of the **Office of the Governor of the Commonwealth of Puerto Rico** (the Office) provides this overview and analysis of the financial activities of the Office during the fiscal year ended June 30, 2010. This report includes the cash received and cash paid as a result of the operating activities of the Office including both funds appropriated by the Commonwealth of Puerto Rico (the Commonwealth) and federal financial assistance programs granted by the US Governmental Agencies (USGA).

This report includes the independent auditors' report, the statement of receipts and disbursements, the schedule of expenditures of federal awards and the management's discussion and analysis. This report also includes notes that explain in more detail the information contained in the financial statement and schedule of expenditures of federal awards.

**Basis of Accounting**

The Office has elected to present its Statement of Receipts and Disbursements on a cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America. **Under the Office's cash basis of accounting**, revenues and expenses are recorded when they result from cash transactions. Therefore, when reviewing the financial information and discussion within this report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

**Financial Analysis**

The Statement of Receipts and Disbursements presents the funds used by the Commonwealth and the grants received from the USGA.

See Independent Auditors' Report.

**OFFICE OF THE GOVERNOR  
OF THE COMMONWEALTH OF PUERTO RICO**

Management Discussion and Analysis

For the Year Ended June 30, 2010

Condensed Financial Information Receipts and Disbursements	Year Ended June 30		Change	
	2010	2009	In Dollars	%
<b>Receipts:</b>				
Commonwealth Appropriations	\$ 23,901,692	\$ 24,184,064	\$ (282,372)	-1.17%
Federal Government	401,682,990	175,000	401,507,990	229433.14%
Total Receipts	425,584,682	24,359,064	401,225,618	
<b>Disbursements:</b>				
General Government	6,458,981	10,244,964	(3,785,983)	-36.95%
Executive Mansion	1,102,225	1,557,351	(455,126)	-29.22%
First Lady's Office	1,107,364	620,452	486,912	78.48%
Judicial Appointments	377,359	324,569	52,790	16.26%
Secretary of Development and Coordination of Public Policy	10,396,619	7,880,881	2,515,738	31.92%
Communication and Citizen Services	3,701,679	3,146,224	555,455	17.65%
Health and Human Services	63,297	123,969	(60,672)	-48.94%
Public Safety	41,497,136	-	41,497,136	100.00%
Elementary and Secondary Education	193,591,490	-	193,591,490	100.00%
Publics IHE's	106,761,062	-	106,761,062	100.00%
Modernization, Renovation or Repair of Public School Facilities	35,942,144	-	35,942,144	100.00%
Administration of ARRA Programs	16,284,401	-	16,284,401	100.00%
Total Disbursements	417,283,757	23,898,410	393,385,347	
Excess of Receipts over Disbursements.	\$ 8,300,925	\$ 460,654	\$ 7,840,271	1701.99%

Receipts from the federal government increased by approximately \$401.5 million as compared with prior year. This increase is mainly attributed to the funds received from the American Recovery and Reinvestment Act of 2009, abbreviated ARRA, and commonly referred to as the Stimulus or The Recovery Act. This Act is an economic stimulus package enacted by the United States Congress in February 2009. Its overall goals are to stimulate the economy in the short-term and invest wisely, using these funds to improve schools, raise achievement and drive reforms. The Office first received this stimulus in the fiscal year 2010, specifically through the programs State Fiscal Stabilization Fund-Education State Grants and State Fiscal Stabilization Fund-Government Services. In 2009, the only federal award received corresponded to Head Start Collaboration grants.

See Independent Auditors' Report.

**OFFICE OF THE GOVERNOR  
OF THE COMMONWEALTH OF PUERTO RICO**

Management Discussion and Analysis

For the Year Ended June 30, 2010

A detail of the ARRA funds received by the Office during the fiscal year ended June 30, 2010 as compared to 2009 is shown below:

Name of Agency of Department	CFDA No.	Name of Program	Total Received	
			2010	2009
U.S. DEPARTMENT OF EDUCATION	84.394	ARRA-State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act (Education Stabilization Fund)	\$ 307,797,001	\$ -
U.S. DEPARTMENT OF EDUCATION	84.397	ARRA-State Fiscal Stabilization Fund (SFSF)-Government Services, Recovery Act	93,723,681	-
			<u>\$ 401,520,682</u>	<u>\$ -</u>

The State Fiscal Stabilization Fund (SFSF) program is a new, one-time appropriation that the U.S. Department of Education (USDE) would award directly to Governors to help stabilize state and local budgets in order to minimize and avoid reductions in education and other essential services, in exchange for a State's commitment to advance essential education reform in four areas, as established in the program. The two components of the Stabilization program are the ARRA-State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act (Education Stabilization Fund) (CFDA No. 84.394) and the ARRA-State Fiscal Stabilization Fund (SFSF)-Government Services, Recovery Act (CFDA No. 84.397). States must use the Education State Grants to restore State support for elementary and secondary education, public higher education, and, as applicable, early childhood education programs and services. States must use the Government Services Fund for public safety and other government services, which may include assistance for elementary and secondary education and public institutions of higher education (IHEs), and for modernization, renovation, or repair of public school facilities and IHE facilities. The Office sub-awarded these funds (both components of the program) to eligible sub-recipients.

Disbursements increased in the same proportion to receipts since the Recovery Act funds were passed through to sub-recipients during the fiscal year ended June 30, 2010.

Decrease in receipts from the Commonwealth appropriations are mainly the result of a decrease in the budget as assigned by the Puerto Rico Office of Management and Budget. Disbursements decreased accordingly.

In January 2009, the current administration implemented a multi-year Fiscal Stabilization Plan (the "Fiscal Plan") and Economic Reconstruction Plan (the "Economic Plan") to achieve fiscal balance and restore economic growth. The Fiscal Plan and the Economic Plan were central to safeguarding the Commonwealth's investment-grade credit rating and restoring Puerto Rico's economic growth and development. In addition, the current administration designed and began to implement the Strategic Model for a New Economy, a series of economic development initiatives to enhance Puerto Rico's overall economic competitiveness and strengthen specific industry sectors. These economic development initiatives were intended to support the prospects of long-term and sustainable growth.

See Independent Auditors' Report.

**OFFICE OF THE GOVERNOR  
OF THE COMMONWEALTH OF PUERTO RICO**

Management Discussion and Analysis

For the Year Ended June 30, 2010

The receipts from the Commonwealth appropriation in fiscal year 2010 include \$7,601,000 of that Fiscal Stabilization fund, whereas receipts from the Commonwealth appropriation for fiscal year 2009 include approximately \$6,000,000 in funds coming from Act No. 52 of August 9, 1991 ("Fondo para el Fomento de Oportunidades de Trabajo").

The overall excess of receipts over disbursements is mainly attributed to timing differences between the receipt of the federal funds and the passed through of funds to the sub-recipients of ARRA funds.

**Contacting Financial Management**

This financial report is designed to provide a general overview of the Office's finances and to demonstrate accountability for the funds administered. If you have questions about this report or need additional financial information, contact the Office of the Governor of the Commonwealth of Puerto Rico, at PO Box 9020082 San Juan, PR 00902-0082.

See Independent Auditors' Report.

**OFFICE OF THE GOVERNOR  
OF THE COMMONWEALTH OF PUERTO RICO**

Statement of Receipts and Disbursements

For the Year Ended June 30, 2010

	State Funds	Federal Funds	Total Memorandum Only
Receipts from:			
Commonwealth Appropriations	\$ 23,901,692	\$ -	\$ 23,901,692
Federal Government	-	401,682,990	401,682,990
<b>Total Receipts</b>	<b>23,901,692</b>	<b>401,682,990</b>	<b>425,584,682</b>
Disbursements to:			
General Government	6,458,981	-	6,458,981
Executive Mansion	1,102,225	-	1,102,225
First Lady's Office	1,107,364	-	1,107,364
Judicial Appointments	377,359	-	377,359
Secretary of Development and Coordination of Public Policy	10,396,619	-	10,396,619
Communication and Citizen Services	3,701,679	-	3,701,679
Health and Human Services	-	63,297	63,297
Public Safety	-	41,497,136	41,497,136
Elementary and Secondary Education	-	193,591,490	193,591,490
Publics IHE's	-	106,761,062	106,761,062
Modernization, Renovation or Repair of Public School Facilities	-	35,942,144	35,942,144
Administration of ARRA Programs	-	16,284,401	16,284,401
<b>Total Disbursements</b>	<b>23,144,227</b>	<b>394,139,530</b>	<b>417,283,757</b>
<b>Excess of Receipts over Disbursements</b>	<b>\$ 757,465</b>	<b>\$ 7,543,460</b>	<b>\$ 8,300,925</b>

The accompanying Notes are an integral part of this Statement.

**OFFICE OF THE GOVERNOR  
OF THE COMMONWEALTH OF PUERTO RICO**

Notes to Statement of Receipts and Disbursements

For the Year Ended June 30, 2010

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization and Reporting Entity

Article IV of the Constitution of the Commonwealth of Puerto Rico (the Commonwealth) establishes that executive power will be exercised by a Governor elected every four years in the general elections. The elected governor performs its duties and responsibilities through the Office of the Governor (the Office).

The Office establishes and coordinates public policy and administrative strategies for the effective operation and functioning of the Executive Branch of the Government of the Commonwealth of Puerto Rico. Through the Office of the Secretary of the Government and its staff of counselors, the Office coordinates with agencies and governmental organisms of other branches of the government, the implementation of said public policy. The Office counsels the Governor in areas of competency, as well as, channels the evaluation of all projects of law and executive orders in all its phases.

The Office's structure is composed of the following organizational units for the development of its activities:

- Office of Administration
- Advisors' Office
- First Lady's Office
- Appointments' Office
- Citizen Services' Office
- Office of the Advisor of Faith and Community-Based Initiatives
- Office of the Governor (own)
- Office of Public Affairs
- Governor's Secretary
- Secretary of Organization and Public Policy

The Office's operations are divided into the following programs:

- Communication and Citizen Services
- General Government Administration
- Development and Coordination of Public Policy
- Executive Mansion
- Judicial Appointments
- First Lady's Office

The Office is presented as part of the Commonwealth financial statement.

Basis of Presentation

The Office's funds are, as required by law, under the custody and control of the Secretary of the Department of Treasury of the Commonwealth of Puerto Rico and are also accounted for in the Central Government Accounting System. The Office prepares its Statement of Receipts and Disbursements on the cash basis of accounting.

**OFFICE OF THE GOVERNOR  
OF THE COMMONWEALTH OF PUERTO RICO**

Notes to Statement of Receipts and Disbursements

For the Year Ended June 30, 2010

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)**

Basis of Presentation, (Continued)

The accounts of the Office are organized on the basis of two fund types: state and federal funds. Each fund is accounted for with a set of accounts which include only receipts and disbursements. No balance sheet accounts are reported. The individual fund accounts for the governmental resources allocated to the Office for purposes of carrying on specific activities in accordance with laws, regulations and other restrictions. The State Funds are appropriated by the Legislature of the Commonwealth of Puerto Rico and are the funds through which most functions are typically financed. Federal Funds reflect the federal financial assistance managed by the Office from programs funded by the Federal Government and as such, accounts for receipts of specific revenue sources and disbursements which are legally restricted for purposes specified in the grant agreements.

Basis of Accounting

The accompanying Statement of Receipts and Disbursements has been prepared using the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. This basis of accounting involves the recognition of revenues when cash is received and the recognition of expenses when cash is disbursed.

Budgetary Accounting

The Office's budget is integrated within the general budget of the Commonwealth of Puerto Rico. Annual operating budgets are adopted each fiscal year through passage of an annual budget which is approved by the Legislature of the Commonwealth and amended as required during the year. The budget is adopted in accordance with statutory basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Receipts are generally recognized when cash is received from federal financial assistance programs or other grants that are received from sources other than the Commonwealth. The Office is granted the right to draw against available funds of the Secretary of the Treasury as its mean to incur in expenditures under the State Fund. Therefore, the budget approved by the Commonwealth represents the spending limit allowed to the Office as it relates to funds appropriated by the Commonwealth. The Statement of Receipts and Disbursements is presented at the programmatic level. However, budgetary control and accounting is exercised at a lower level to provide management with detailed control over expenditures at the appropriate budget level.

Budgetary control procedures require the obligation of funds before purchase orders can be placed; that is applicable appropriations must be reserved before purchase orders or contracts can be entered into. Obligated appropriations at year end carry over to the next fiscal year and are not reported as part of next fiscal year's budget. For budgetary purposes, encumbrances accounting is used. The encumbrances (that is, purchase order, contracts) are considered expenditures when paid. For payroll and related payments, the cash disbursement is recorded on the effective date of the payroll being processed.

**OFFICE OF THE GOVERNOR  
OF THE COMMONWEALTH OF PUERTO RICO**

Notes to Statement of Receipts and Disbursements

For the Year Ended June 30, 2010

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)**

Budgetary Accounting, (Continued)

As a result of the budget of the Office being part of the general budget of the Commonwealth, legal control is maintained by the Director of the Office of Management and Budget of the Commonwealth. The budgetary control and accountability of the Office is maintained by the Commonwealth. Accordingly, no budgetary comparison schedule is presented within this statement. Also, the budget prepared for each of the federal funds is based on a program period which is not necessarily the same fiscal year of the Commonwealth. Accordingly, it is not practical to present an annual comparison of budget and actual for the Federal Fund.

Totals Memorandum Only

Total columns on the combined financial statement are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. No consolidating entries or other eliminations were made in the aggregation of the totals; they do not represent consolidated information and do not purport to present financial position or results of operations in conformity with generally accepted accounting principles.

**2. RETIREMENT PLAN**

The Office's regular employees participate in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), which is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico.

The Office provides retirement, death and disability benefits pursuant to Act 447, approved on May 15, 1951, as amended, and effective on January 1, 1952. Employees must contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the salary in excess of \$550. The Office contributes 9.275% of total gross salaries. Total contributions made to the pension plan during the year ended June 30, 2010 was approximately \$973,000.

**3. COMPENSATED ABSENCES**

The employees of the Office have the right to thirty (30) regular vacation days and eighteen (18) sick leave days for each year. As a general rule, employees having accrued vacations in excess of sixty (60) days will have to use the excess before December 31. In some instances where the employee cannot use such excess, the excess should be paid. The payment should be made on or before the following March 31. Sick leave licenses accrued in excess of ninety (90) days at the end of the calendar year will be paid no later than the following March 31. When an employee resigns, the accumulated vacation is liquidated. The resignation as a government employee, before consuming the accrued sick leave days, ends all right to compensation, except for those employees with ten (10) or more years of service, who have the right to such compensation up to the maximum allowed.

**OFFICE OF THE GOVERNOR  
OF THE COMMONWEALTH OF PUERTO RICO**

Notes to Statement of Receipts and Disbursements

For the Year Ended June 30, 2010

**3. COMPENSATED ABSENCES, (Continued)**

During fiscal year 2008-2009, the Commonwealth amended the Public Service Personnel Act, as amended, through Act No. 7 of March 9, 2009, "*Ley Especial Declarando Estado de Emergencia Fiscal y Estableciendo Plan Integral de Estabilización Fiscal para Salvar el Credito de Puerto Rico*", eliminating the benefit granted to employees of certain component units and some executive agencies of the Commonwealth to annually pay their accumulated vacation and sick leave earned in excess of their balances.

**4. COMMITMENTS AND CONTINGENCIES**

Litigations and Claims

The Office is a defendant in lawsuits arising in the normal course of operations. According to the laws of the Commonwealth of Puerto Rico, the Office is fully represented by the Puerto Rico Department of Justice in defense of all legal cases against the Office. Any claims with negative financial impact will be paid from the General Fund of the Commonwealth of Puerto Rico, with no effect on the budget or resources of the Office.

Federal Financial Assistance Programs

The Office participates in and administers federal grant programs, which are governed by various rules and regulations of the grantor agencies, including programs from the "American Recovery and Reinvestment Act of 2009" (ARRA). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations, including the expenditure of resources for eligible purposes. As such, the Office is required to comply with the audit requirements established by the Office of Management and Budget Circular A-133, "*Audits of State and Local Governments*". If expenditures are disallowed due to non compliance with grant program regulations, the Office may be required to reimburse the grantors for such expenditures.

Operational Leases

On July 2001, the Office entered into an operating lease agreement for office space which expired on June 2004, but was renewable annually for one-year periods. For the year ended June 30, 2010 the monthly rent paid for this operating lease is \$9,677. This lease was subsequently canceled in 2011.

On April 2003, the Office entered into an operating lease agreement for rent of a warehouse space used for storage of public documents. The lease expired on June 2004, but is renewable annually for one-year periods. For the year ended June 30, 2010 the monthly rent paid for this operating lease is \$1,744.

**OFFICE OF THE GOVERNOR  
OF THE COMMONWEALTH OF PUERTO RICO**

Notes to Statement of Receipts and Disbursements

For the Year Ended June 30, 2010

**4. COMMITMENTS AND CONTINGENCIES, (Continued)**

Operational Leases, (Continued)

Also, the Office has several "non-cancelable" operating leases for equipment which are payable on month to month basis.

There are no minimum rental commitments for leases in effect at June 30, 2010.

Rent paid during fiscal year ended June 30, 2010, under these lease agreements amounted to approximately \$ 138,000.

**5. SUBSEQUENT EVENTS**

State Fiscal Stabilization funds were available for local obligation through September 30, 2011.

Management of the Office has evaluated subsequent events through September 28, 2012, the date the financial statement was available to be issued.

**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**

Honorable Luis Guillermo Fortuño Bursset  
Governor  
**Office of the Governor**  
San Juan, Puerto Rico

We have audited the Statement of Receipts and Disbursements of the **Office of the Governor of the Commonwealth of Puerto Rico** (the Office) for the year ended June 30, 2010, and have issued our report thereon dated September 28, 2012. We conducted our audit 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.

**Internal Control Over Financial Reporting**

Management of the Office is responsible for establishing and maintaining effective internal control over financing reporting. In planning and performing our audit, we considered the Office's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office's Statement of Receipts and Disbursements is free of 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*.

We noted certain matters that we reported to management of the Office in a separate letter dated September 28, 2012.

This report is intended solely for the information and use of management, the Office, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

License No. 113  
Expires on December 1, 2012

San Juan, Puerto Rico  
September 28, 2012  
2012-10-71

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT  
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Luis Guillermo Fortuño Bursat  
Governor  
**Office of the Governor**  
San Juan, Puerto Rico

Compliance

We have audited the **Office of the Governor of the Commonwealth of Puerto Rico's** (the Office) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Office's major federal programs for the year ended June 30, 2010. The Office's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Office's management. Our responsibility is to express an opinion on Office's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the Office'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. Our audit does not provide a legal determination of the Office's compliance with those requirements.

In our opinion, the Office complied, in all material respects, with the 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, 2010.

## Internal Control Over Compliance

Management of the Office is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Office's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the Office'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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Office, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

License No. 113  
Expires on December 1, 2012

San Juan, Puerto Rico  
September 28, 2012  
2012-10-72

Stamp No.  
**E-45332**  
was affixed  
to original

**SUPPLEMENTARY INFORMATION**

Draft

**OFFICE OF THE GOVERNOR  
OF THE COMMONWEALTH OF PUERTO RICO**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/ Program Title or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<b><u>DIRECT PROGRAMS:</u></b>			
<b>U.S. DEPARTMENT OF EDUCATION</b>			
ARRA-State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act (Education Stabilization Fund)	84.394	N/A	\$ 300,352,552
ARRA-State Fiscal Stabilization Fund (SFSF)-Government Services, Recovery Act	84.397	N/A	93,723,681
			<u>394,076,233</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Head Start	93.600	N/A	63,297
			<u>63,297</u>
Total Expenditures of Federal Awards			<u><u>\$ 394,139,530</u></u>

See Independent Auditors' Report.

**OFFICE OF THE GOVERNOR  
OF THE COMMONWEALTH OF PUERTO RICO**

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2010

**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the **Office of the Governor of the Commonwealth of Puerto Rico** (the Office) under programs of the federal government for the year ended June 30, 2010. The information in this Schedule is presented in accordance with the requirements of the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operation of the Office, it is not intended to and does not purport to present the Statement of Receipts and Disbursements of the Office.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. It is drawn primarily from the Office's internal accounting records, which are the basis of the Office's Statement of Receipts and Disbursements. Such expenditures are recognized following the cost principles the contained in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The titles of federal awards included in the Schedule are presented as described in the Catalog of Federal Domestic Assistance (CFDA).

**3. RELATIONSHIP TO THE FINANCIAL STATEMENT**

Expenditures included in the Schedule agree with the amounts included in the accompanying Statement of Receipts and Disbursements.

**4. SUBRECIPIENTS**

The Office provided federal awards to subrecipients as follows:

Federal Grantor/Pass-Through Grantor/ Program Title or Cluster Title	Federal CFDA Number	Amount Provided to Subrecipients
<u>DIRECT PROGRAMS:</u>		
U.S. DEPARTMENT OF EDUCATION		
ARRA-State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act (Education Stabilization Fund)	84.394	\$ 300,352,552
ARRA-State Fiscal Stabilization Fund (SFSF)-Government Services, Recovery Act	84.397	<u>93,723,681</u>
Total Expenditures of Federal Awards		<u>\$ 394,076,233</u>

**OFFICE OF THE GOVERNOR  
OF THE COMMONWEALTH OF PUERTO RICO**

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2010

**5. RESTRICTIONS**

Each federal program has its own use restrictions. Those restrictions are included in the corresponding OMB's CFDA.

**6. GENERAL OBJECTIVE**

The Office received federal awards from the following federal grantors/pass-through entities: (1) U.S. Department of Education (USDE), and the (2) U.S. Department of Health and Human Services (HHS). Federal grants received from the USDE are to help stabilize state and local budgets in order to minimize and avoid reductions in education and other essential services. Funds received from HHS are principally to promote child development and learning programs.

**OFFICE OF THE GOVERNOR  
OF THE COMMONWEALTH OF PUERTO RICO**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2010

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

    Material weakness(es) identified? \_\_\_ Yes    X No

    Significant deficiency(ies) identified  
    not considered to be material weaknesses? \_\_\_ Yes    X None reported

Noncompliance material to financial statements noted? \_\_\_ Yes    X No

**Federal Awards**

Internal Control over major programs:

    Material weakness(es) identified? \_\_\_ Yes    X No

    Significant deficiency(ies) identified  
    not considered to be material weaknesses? \_\_\_ Yes    X None reported

Type of auditors' report issued on compliance  
for major programs? Unqualified

Any audit findings disclosed that are required  
to be reported in accordance with OMB  
Circular A-133, Section .510(a) \_\_\_ Yes    X No

**Identification of Major Programs:**

CFDA Number	Name of Federal Program
84.394	ARRA-State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act (Education Stabilization Fund)
84.397	ARRA-State Fiscal Stabilization Fund (SFSF)-Government Services, Recovery Act

Dollar threshold used to distinguish  
Between Type A and Type B programs: \$3,000,000

Auditee qualified as low-risk auditee? \_\_\_ Yes    X No

See Independent Auditors' Report.

**OFFICE OF THE GOVERNOR  
OF THE COMMONWEALTH OF PUERTO RICO**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2010.

**SECTION II - FINDINGS - FINANCIAL STATEMENT AUDIT**

The audit of the financial statement of the Office for the year ended June 30, 2010 disclosed no matters involving internal controls over financial reporting.

**SECTION III - FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT**

The single audit of the Office under the OMB A-133 for the year ended June 30, 2010 disclosed no instance of non-compliance.

**SECTION IV - SUMMARY SCHEDULE OR PRIOR YEAR FINDINGS**

Not applicable.

September 28, 2012

To the Board of Directors and Members of  
**OFFICE OF THE GOVERNOR**  
San Juan, Puerto Rico

The stockholders and staff of De Angel & Compañía, CPA, CSP, are pleased to announce the successful completion of an independent peer review of our accounting and auditing practice. This review was undertaken as a condition of membership in the American Institute of Certified Public Accountants (AICPA), the national organization of CPAs in public practice, industry, government and education.

In 1988, the members of the AICPA overwhelmingly approved a proposal to require members in public practice to participate in a practice-monitoring program. With the adoption of this proposal, the AICPA implemented a peer review program of unprecedented scope in the CPA profession or any other. Our participation in peer review demonstrates our firm's desire to measure up to the profession's high standards of professionalism and our commitment to maintaining and improving the quality of our practice.

In August 2000, the Puerto Rico Society of CPAs (PRSCPA) adopted a voluntary peer review program, which follows the lead established by the AICPA.

Our peer review was conducted by Torres Llompарт Sánchez Ruíz, CPA, an independent firm (the Reviewer). The Reviewer first determined that we have an adequate quality control system, and then checked to see that professional's standards were followed in a representative sample of our accounting and auditing engagements.

After thorough study of our policies and procedures, the Reviewer concluded our firm complies with the stringent quality control standards established by the AICPA and the PRSCPA. Our firm is committed to periodic peer review to foster quality performance.

Bankers, bonding agents, investors, suppliers, legal advisors and others use the financial statements our firm audits, reviews, or compiles. We think those people, our clients, and our own staff deserves independent quality assurance that our firm provides quality services. We are proud of our peer review results and would be happy to answer any questions you might have.

Sincerely,

Carlos De Ángel Ramírez  
President