

COMMONWEALTH OF PUERTO RICO
GOVERNOR'S AUTHORIZED
REPRESENTATIVE

SINGLE AUDIT REPORT

June 30, 2010



**COMMONWEALTH OF PUERTO RICO
GOVERNOR'S AUTHORIZED REPRESENTATIVE
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INDEPENDENT AUDITORS' REPORT

To the Director of the Office of Management
and Budget of the Commonwealth of Puerto Rico
Commonwealth of Puerto Rico
Governor's Authorized Representative:

We have audited the accompanying schedule of cash receipts and disbursement activities of the Commonwealth of Puerto Rico Governor's Authorized Representative (the "GAR") for the fiscal year ended June 30, 2010. This schedule of cash receipts and disbursement activities is the responsibility of the GAR's management. Our responsibility is to express an opinion on this schedule of cash receipts and disbursement activities 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 *Government 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 schedule of cash receipts and disbursement activities is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of cash receipts and disbursement activities. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule of cash receipts and disbursement activities presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the GAR prepares its schedule of cash receipts and disbursement activities for its governmental activities on a cash receipts and disbursements basis (cash basis) of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Also, as discussed in Note 2, the GAR's schedule of cash receipts and disbursement activities is intended to present the cash receipts and cash disbursements of only that portion of the governmental activities of the Commonwealth of Puerto Rico attributable to the transactions of the GAR. They do not intend to, and do not, present fairly the financial position and changes in financial position of, the Commonwealth of Puerto Rico in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the schedule of cash receipts and disbursement activities referred to above, presents fairly, in all material respects, the cash receipts and cash disbursements of the Commonwealth of Puerto Rico Governor's Authorized Representative for the fiscal year ended June 30, 2010, on the basis of accounting described in Note 2.

To the Director of the Office of Management
and Budget of the Commonwealth of Puerto Rico
Commonwealth of Puerto Rico
Governor's Authorized Representative
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In accordance with Government Auditing Standards, we have also issued our report dated March 18, 2011, on our consideration of the GAR's internal controls 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 the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis information on page 3 is not a required part of the schedule of cash receipts and disbursement activities, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the schedule of cash receipts and disbursement activities taken as a whole. The accompanying Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 2010, is presented for purposes of additional analysis as required by the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the schedule of cash receipts and disbursement activities. Such information has been subjected to the auditing procedures applied in the audit of the schedule of cash receipts and disbursement activities and, in our opinion, is fairly stated, in all material respects, in relation to the schedule of cash receipts and disbursement activities taken as a whole.

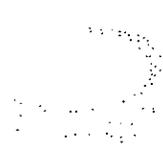
Scherer Hernández & Co.

San Juan, Puerto Rico

March 18, 2011

Certified Public Accountants
(of Puerto Rico)

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**COMMONWEALTH OF PUERTO RICO
GOVERNOR'S AUTHORIZED REPRESENTATIVE
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**OVERVIEW OF THE AUDITED SCHEDULE OF CASH RECEIPTS AND DISBURSEMENT
ACTIVITIES**

As management of the Commonwealth of Puerto Rico Governor's Authorized Representative ("GAR"), we offer readers of the annual financial report, our discussion and analysis of the GAR's financial performance during the fiscal year ended June 30, 2010. The management's discussion and analysis is designed to assist the reader in understanding the GAR's operations and should be read in conjunction with the schedule of cash receipts and disbursement activities, which follows this section.

The financial report consists of two parts: management's discussion and analysis (this section), and the schedule of cash receipts and disbursement activities, including the notes to the schedule of cash receipts and disbursement activities.

- The schedule of cash receipts and disbursement activities presents the cash receipts and disbursements of only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the GAR.
- The report also includes notes to the schedule of cash receipts and disbursement activities section that explains some of the information in the schedule of cash receipts and disbursement activities and provides more detailed data.

The GAR utilizes the cash basis of accounting to account for all programs administered. Under this method, revenue received is recognized as cash or funds are transferred-in, and expenditures are recognized when funds are disbursed or transferred-out. Therefore, the schedule of cash receipts and disbursement activities is not intended to present the GAR's results of operations in accordance with accounting principles generally accepted in the United States of America.

FINANCIAL HIGHLIGHTS

- Total cash receipts from operating grants increased from \$19,074,377 for the fiscal year ended June 30, 2009 to \$26,559,127 for the fiscal year ended June 30, 2010, of which \$19,958,506 were from federal sources and \$6,600,621 from state sources. In addition, during the current fiscal year sub-recipients returned to the GAR funds in the amount of \$49,356.
- Total cash disbursements increased from \$18,259,256 for the fiscal year ended June 30, 2009 to \$23,146,278 for the fiscal year ended June 30, 2010.
- Cash receipts from operating grants have a direct relationship with amounts disbursed since these grants operate on a cost reimbursement basis. The significant increase is mainly due to increase in natural disasters as compared to prior fiscal year.

CONTACTING THE GAR'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the GAR's cash receipts and disbursements and to demonstrate the GAR's accountability for the money it receives. If you have any question or need additional financial information, contact the Commonwealth of Puerto Rico Governor's Authorized Representative, PO Box 9023228, San Juan, Puerto Rico 00902-3228.

COMMONWEALTH OF PUERTO RICO
 GOVERNOR'S AUTHORIZED REPRESENTATIVE
 SCHEDULE OF CASH RECEIPTS AND DISBURSEMENT ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2010

	Cash Disbursements	Program Cash Receipts		Net Receipts (Disbursements)
		State Sources	Federal Sources	
Public assistance grants	\$ 20,551,413	\$ 6,600,621	\$ 17,363,641	\$ 3,412,849
Hazard mitigation grant	2,594,865	-	2,594,865	-
	<u>\$ 23,146,278</u>	<u>\$ 6,600,621</u>	<u>\$ 19,958,506</u>	<u>\$ 3,412,849</u>

The accompanying notes are an integral part of the schedule of cash receipts and disbursement activities.

**COMMONWEALTH OF PUERTO RICO
GOVERNOR'S AUTHORIZED REPRESENTATIVE
NOTES TO THE SCHEDULE OF CASH RECEIPTS AND
DISBURSEMENT ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. NATURE OF BUSINESS

The Commonwealth of Puerto Rico Governor's Authorized Representative ("the GAR") is the individual designated by the Governor of the Commonwealth of Puerto Rico for the coordination, receipt, and management of funds approved by the United States Federal Emergency Management Agency ("FEMA"), which is part of the Department of Homeland Security, whenever a natural disaster affects Puerto Rico. The GAR is responsible for identifying and accounting for resources available to match funds provided by FEMA, for allocating them among programs based on priorities, for managing programs to expedite the extension of financial aid, and to account for results upon completion of each program award.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The GAR's schedule of cash receipts and disbursement activities has been prepared in accordance with the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Revenue is recognized when cash is received or transferred-in and expenditures are recorded when the related disbursement is incurred or transferred-out. The accounts of the GAR are accounted for with a set of accounts, which only include cash receipts and, cash disbursements. No balance sheet accounts are maintained or reported. The following individual programs account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations, and other restrictions:

Public Assistance – Accounts for grants on estimated or actual cost information for the individual projects developed by the municipalities, government agencies, public corporations and not-for-profit organizations. Substantially all of these resources are delegated by the GAR to such entities, which are considered sub-recipients of those funds.

Hazard Mitigation – Accounts for grants used to mitigate the vulnerability of life and property to future disasters during the recovery and reconstruction process following an actual disaster. To accomplish this objective, FEMA assists the GAR to avoid or minimize the impact of natural hazards through strategies such as safer building practices and the improvement of existing structures and supporting infrastructure.

Statutory (Budgetary) Accounting and Budgetary Control

Formal budgetary accounting is employed as a management control for all programs of the GAR. Annual operating budgets are adopted each fiscal year through the submission of an annual budget, which is approved by the Commonwealth of Puerto Rico Legislature and amended as required through the year. All unencumbered budget appropriations of local funds lapse three years after the end of each fiscal year. Federal grant funds can be carried over for a specified amount of time, upon request to and approval by FEMA.

The schedule of cash receipts and disbursement activities is presented at the programmatic level. However, budgetary control and accounting is exercised at a lower level providing management with detailed control over expenditures at an appropriated budget level.

**COMMONWEALTH OF PUERTO RICO
GOVERNOR'S AUTHORIZED REPRESENTATIVE
NOTES TO THE SCHEDULE OF CASH RECEIPTS AND
DISBURSEMENT ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Compensated Absences – The vacation policy of the Commonwealth of Puerto Rico, that applies to the GAR's employees, provides for the accumulation of 2.5 days per month. Vacation time accumulated is fully vested to the employees from the first day of work up to a maximum of 60 days. GAR's employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid leave at the current rate, if the employee has at least 10 years of service with the Commonwealth of Puerto Rico.

Risk Financing – The Commonwealth of Puerto Rico purchases commercial insurance covering casualty, theft, tort, claims, and other losses for the GAR. The GAR reimburses the Commonwealth for premium payments made on its behalf. The GAR's current insurance policies have not been canceled or terminated. For workers' compensation, the State Insurance Fund Corporation, a component unit of the Commonwealth of Puerto Rico, provides the workers' compensation to the GAR's employees.

Recent Accounting Guidance:

Subsequent Events - In May 2009, the FASB issued authoritative guidance for the accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance does not apply to subsequent events or transactions that are within the scope of other applicable GAAP that provide different guidance on the accounting treatment for subsequent events or transactions. This guidance is effective for interim and annual periods ending after June 15, 2009, and is required to be applied prospectively. GAR's has adopted this guidance in the schedule of cash receipts and disbursement activities for the year ended June 30, 2010.

For purposes of this schedule of cash receipts and disbursement activities, subsequent events have been evaluated through March 18, 2011, which is the date the schedule of cash receipts and disbursement activities was available to be issued.

Other Recent Accounting Pronouncements – During the year ended June 30, 2010, the FASB and other standard setting bodies issued other accounting standard updates that were not relevant to the GAR's operations.

3. LITIGATIONS AND CLAIMS

Law 104 of June 30, 1955, as amended, known as Claims and Lawsuits against the State, provides that lawsuits initiated against an agency or instrumentality of the Commonwealth of Puerto Rico (including the GAR), present and past employees, directors, majors, and others may be represented by the Department of Justice of the Commonwealth of Puerto Rico. Any adverse claim to the defendants is to be paid by the General Fund of the Commonwealth of Puerto Rico and not from funds of the agency or instrumentality.

However, the Secretary of the Treasury of the Commonwealth of Puerto Rico has the discretion of requesting reimbursement of the funds expended for these purposes from the public corporations, governmental institutions, or municipalities of the defendants.

**COMMONWEALTH OF PUERTO RICO
GOVERNOR'S AUTHORIZED REPRESENTATIVE
NOTES TO THE SCHEDULE OF CASH RECEIPTS AND
DISBURSEMENT ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

At June 30, 2010, the GAR was co-defendant in a lawsuit, which is in the discovery stage. This claim is covered by insurance. Legal counsel cannot determine the final outcome of this claim with the information currently available. As a result, the GAR's schedule of cash receipts and disbursement activities does not include adjustments, if any, that could result from the resolution of this legal proceeding.

COMMONWEALTH OF PUERTO RICO
 GOVERNOR'S AUTHORIZED REPRESENTATIVE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-through Grantors/ Program Title	Federal CFDA Number	Federal Expenditures
Department of Homeland Security -		
U.S. Emergency Management Agency:		
Public Assistance Agency	97.036	\$ 17,363,641
Hazard Mitigation Grant	97.039	<u>2,594,865</u>
Total Expenditures of Federal Awards		<u>\$ 19,958,506</u>

**COMMONWEALTH OF PUERTO RICO
GOVERNOR'S AUTHORIZED REPRESENTATIVE
NOTES TO THE 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 includes the federal grant activity of the Commonwealth of Puerto Rico Governor's Authorized Representative ("GAR") and is presented in accordance with the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Expenditures are recorded when the related disbursement is incurred or transferred-out. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Therefore, some accounts in this schedule may differ from amounts presented in, or used in the preparation of the schedule of cash receipts and disbursement activities.

2. SUB-RECIPIENTS

The GAR provided federal awards to sub-recipients during the fiscal year ended June 30, 2010, as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Public Assistance Agency	97.036	\$ 17,363,641
Hazard Mitigation Grant	97.039	2,464,888
		<u>\$ 19,828,529</u>



**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**

To the Director of the Office of Management
and Budget of the Commonwealth of Puerto Rico
Commonwealth of Puerto Rico
Governor's Authorized Representative:

We have audited the schedule of cash receipts and disbursement activities of the Commonwealth of Puerto Rico Governor's Authorized Representative ("GAR") for the fiscal year ended June 30, 2010, and have issued our report thereon dated March 18, 2011.

Our report on the schedule of cash receipts and disbursement activities disclosed that, as described in Note 2 to the schedule, the GAR prepares its schedule of cash receipts and disbursement activities in accordance with the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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

In planning and performing our audit, we considered GAR's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the schedule of cash receipts and disbursement activities, but not for the purpose of expressing an opinion on the effectiveness of the GAR's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the GAR's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiency in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects GAR's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of GAR's schedule of cash receipts and disbursement activities that is more than inconsequential will not be prevented or detected by GAR's internal control. We consider the deficiencies described in items 2010-01 and 2010-02 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

To the Director of the Office of Management
and Budget of the Commonwealth of Puerto Rico
Commonwealth of Puerto Rico
Governor's Authorized Representative
Page 2 of 2

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the schedule of cash receipts and disbursement activities will not be prevented or detected by the GAR's internal control. We consider the significant deficiency described above as item 2010-01 to be a material weakness.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether GAR's schedule of cash receipts and disbursement activities 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 schedule of cash receipts and disbursements activities 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 instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2010-01 and 2010-02.

This report is intended solely for the information and use of the GAR's management, the United States Department of Homeland Security (Federal Emergency Management Agency) and pass-through entities and is not intended to be and should not be used by anyone other than these specified.

Scherrer Hernández & Co.

San Juan, Puerto Rico

March 18, 2011

Certified Public Accountants
(of Puerto Rico)

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Director of the Office of Management
and Budget of the Commonwealth of Puerto Rico
Commonwealth of Puerto Rico
Governor's Authorized Representative:

Compliance

We have audited the compliance of the Commonwealth of Puerto Rico Governor's Authorized Representative (the "GAR"), with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the fiscal year ended June 30, 2010. GAR'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 GAR's management. Our responsibility is to express an opinion on GAR'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 GAR'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 GAR's compliance with those requirements.

As described in item 2010-03 in the accompanying schedule of findings and questioned costs, the GAR did not comply with requirements regarding sub-recipient monitoring that is applicable to its Public Assistance Grant and Hazard Mitigation Grant Programs. Compliance with such requirements is necessary, in our opinion, for the GAR to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the GAR complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the fiscal year ended June 30, 2010.

To the Director of the Office of Management
and Budget of the Commonwealth of Puerto Rico
Commonwealth of Puerto Rico
Governor's Authorized Representative
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Internal Control over Compliance

The management of GAR 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 GAR's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance in accordance with OMB Circular A-133. Accordingly, we do not express an opinion on the effectiveness of GAR's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiency in internal control over compliance that we consider to be a significant deficiency and a material weakness.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2009-03 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. However, we consider the deficiency in internal control over compliance described as item 2010-03 in the accompanying schedule of findings and questioned costs to be a material weakness.

This report is intended solely for the information and use of the GAR's management, the United States Department of Homeland Security (Federal Emergency Management Agency) and pass-through parties and is not intended to be and should not be used by anyone other than these specified parties.

Scherrer Hernández & C.

San Juan, Puerto Rico

March 18, 2011

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(of Puerto Rico)

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**COMMONWEALTH OF PUERTO RICO
GOVERNOR'S AUTHORIZED REPRESENTATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

I. SUMMARY OF AUDITORS' RESULTS

- i. The auditors' report includes an unqualified opinion on the schedule of cash receipts and disbursement activities of the Commonwealth of Puerto Rico Governor's Authorized Representative ("GAR") for the fiscal year ended June 30, 2010.
- ii. Two (2) significant deficiencies disclosed during the audit of the schedule of cash receipts and disbursement activities of the GAR (Findings 2010-01 and 2010-02) are reported in the 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*. Finding 2010-01 is also reported as material weakness.
- iii. Two (2) instances of noncompliance material to the schedule of cash receipts and disbursement activities of the GAR, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- iv. One (1) significant deficiency relating to the schedule of cash receipts and disbursement activities of the GAR (Finding 2010-03) is reported in the independent auditor's report on compliance with requirements applicable to its major programs and on internal control over compliance in accordance with OMB Circular A-133. Finding 2010-03 is also reported as a material weakness.
- v. The auditors' report on compliance for the major federal award programs for the GAR, includes a qualified opinion on its major federal programs.
- vi. Audit findings related to the major federal award program for the GAR that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
- vii. The programs tested as major programs are:

<u>Name of Federal Program or Cluster</u>	<u>Federal CFDA Number</u>
Public Assistance Agency	97.036
Hazard Mitigation Grant	97.039

- viii. The threshold used for distinguishing between Type A and B programs was \$467,231, as described in OMB Circular A-133 _520.
- ix. The GAR does not qualify as a low-risk auditee in accordance with OMB Circular A-133 _530.

II. FINANCIAL STATEMENTS FINDINGS

Refer to 2010-01(Material Weakness) and 2010-02(Significant Deficiency) included in the GAR's Schedule of Findings and Questioned Costs.

**COMMONWEALTH OF PUERTO RICO
GOVERNOR'S AUTHORIZED REPRESENTATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Refer to material weakness 2010-03 included in the GAR's Schedule of Findings and Questioned Costs.

COMMONWEALTH OF PUERTO RICO
GOVERNOR'S AUTHORIZED REPRESENTATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Finding 2010-01 (Recurring Finding) (Material Weakness)

Condition:

The management of the GAR records its transactions related with federal awards in MS Excel spreadsheets. Even though management is currently in the process of evaluating an accounting system for maintaining the GAR's accounting records, no accounting system was used to maintain the GAR's accounting corresponding to federal awards during the fiscal year ended June 30, 2010.

Criteria:

Federal laws and regulations require that recipients of federal awards must maintain an adequate accounting system to account for federal funds in accordance with laws and regulations. Sub-part C - Post-Award Requirements establish that a State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its sub-grantees and cost-type contractors, must be sufficient to:

- Allow the preparation of reports required by this part and the statutes authorizing the grant, and,
- Allow the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes.
- The financial management system of other grantees and sub-grantees must meet the following standards:
 - a) Financial reporting - accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub-grant.
 - b) Accounting records - Grantees and sub-grantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or sub-grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
 - c) Internal control - effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property, and other assets, Grantees and sub-grantees must adequately safeguard all such property and must assure that it is issued solely for authorized purposes.

Cause:

GAR's management understands that recording all transactions related to the operations of GAR in Microsoft Excel spreadsheets is sufficient given the volume and their nature.

COMMONWEALTH OF PUERTO RICO
GOVERNOR'S AUTHORIZED REPRESENTATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Effect:

The accounting system does not provide reasonable assurance over the completeness and accuracy of accounting records. In addition, it does not provide for easily access to approved amounts, obligated balances, balance available and other related reports necessary to allow an adequate control of activities. Finally, the risk of potential loss, unauthorized modification or omission of information increases significantly.

Amount of questioned cost:

None.

Recommendation:

GAR should acquire a mechanized accounting software to process all of its accounting transactions to prepare accurate, timely and complete accounting records, which could facilitate the presentation of the GAR's financial results of financially assisted activities. Such software should provide recording and reporting at an adequate level of expenditures, to maintain information of grant or sub-grant awards authorized, funds obligated, and unobligated.

Management response:

In order to attend this matter the GAR office is in the bidding process for the evaluation of the different mechanized accounting systems available to accomplish the necessities. The Office of Management and Budget purchasing department asks for proposals with all the requirements and recommendations included in the Single Audit Report.

COMMONWEALTH OF PUERTO RICO
GOVERNOR'S AUTHORIZED REPRESENTATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Finding 2010-02 (Recurring Finding) (Significant Deficiency)

Condition:

The GAR did not submit the data collection form and reporting package within the earlier of 30 days after the receipt of the auditor's report, or nine months after the end of the audit period.

Criteria:

Laws and regulations under OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations" Subpart C – Auditees - .320 Report Submission, requires that the audit shall be completed and submitted, along with the data collection form and reporting package within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. Unless restricted by law or regulation, the auditee shall make copies available for public inspection.

Cause:

The GAR did not contract on time the external auditors to complete and submit the data collection form and reporting package for the year ended June 30, 2009 Single Audit within the timeframe as required by OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations" Subpart C – Auditees - .320 Report Submission Section.

Effect:

The GAR did not comply with the timely filing of the data collection form and reporting package for the Single Audit of the fiscal year ended June 30, 2009.

Amount of questioned cost:

None.

Recommendation:

The GAR must contract the services of an external auditor to perform the Single Audit report with sufficient time in order to comply with the data collection form and reporting package filing timeframe as required by OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations" Subpart C – Auditees - .320 Report Submission Section.

Management response:

Although we are in knowledge of the requirements to perform the Single Audit in a timely basis, due to the fiscal situation affecting all the agencies in the Commonwealth it was necessary to identify the monies required to proceed with the contract. For subsequent years this will be address in the budget.

**COMMONWEALTH OF PUERTO RICO
GOVERNOR'S AUTHORIZED REPRESENTATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Finding 2010-03 (Recurring Finding) (Material Weakness)

Federal Program U.S. Department of Homeland Security -
 U.S. Emergency Management Agency:
 Public Assistance Grant (97.036)
 Hazard Mitigation Grant (97.039)

Requirement Compliance and Internal Control

Noncompliance Sub-Recipient Monitoring Compliance Requirement

Condition:

During our review of the internal control procedures on sub-recipient monitoring we identified the following matter:

- The Commonwealth of Puerto Rico Governor's Authorized Representative does not have a formal written sub-recipient monitoring policy.

Criteria:

Laws and regulations under Public Assistance Grant contained in 31 USC 7502 (f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. 104-156)), OMB Circular A-133, OMB Circular A-102, Common Rule and OMB Circular A-110 require pass-through entities to (1) ensure that sub-recipients expending \$500,000 (as provided in OMB Circular A-133, as revised) or more in Federal awards during the sub-recipient's fiscal year have met the audit requirements of OMB Circular A_133 (Gov. Doc. No. 8) and that the required audits are completed within nine months of the end of the sub-recipient's audit period, (2) issue a management decision on audit findings within six months after receipt of the sub-recipient's audit report, and (3) ensure that the sub-recipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a sub-recipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Cause:

Although GAR as a pass-through entity has in place procedures to monitor their sub-recipients, these procedures are not part of a written and adopted policy.

Effect:

GAR not having a formal written sub-recipient monitoring policy, it is possible that procedures are not followed consistently.

Amount of questioned cost:

None.

**COMMONWEALTH OF PUERTO RICO
GOVERNOR'S AUTHORIZED REPRESENTATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Recommendation:

The GAR should prepare and put in place a formal written sub-recipient monitoring policy to ascertain that sub-recipients comply with the following requirements:

- a. Reporting – reviewing within 6 months financial and performance reports submitted by the sub-recipient.
- b. Site Visits – performing site visits at the sub-recipient to review financial and programmatic records and observe operations regardless of amount of federal award pass-through to sub-recipients.
- c. Regular Contact – regular contacts with sub-recipients and appropriate inquiries concerning program activities.

Management response:

Due to the fiscal situation in all Governmental agencies of the Commonwealth a lack of personnel is being affecting all the regular processes that should be performed. Since June 2010 clerical personnel are in charge of the request of the Single Audit reports and the review of all findings related to the GAR made to all sub-recipients. Although no written procedure has been established in a written manual all the controls and procedures are being performed consistently.

**COMMONWEALTH OF PUERTO RICO
GOVERNOR'S AUTHORIZED REPRESENTATIVE
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

Finding 2009-01

The management of the GAR records its transactions related with federal awards in MS Excel spreadsheets. Even though management is currently in the process of evaluating an accounting system for maintaining the GAR's accounting records, no accounting system was used to maintain the GAR's accounting corresponding to federal awards during the fiscal year ended June 30, 2009.

Status

Similar condition was noted during the year ended June 30, 2010. Refer to finding 2010-01 and Corrective Action Plan.

Finding 2009-02

The GAR did not submit the data collection form and reporting package within the earliest of 30 days after the receipt of the auditor's report, or nine months after the end of the audit period.

Status

Management completed the Data Collection Form however it has not been officially submitted as of the date of the issuance of this single audit report.

Finding 2009-03

During our review of the internal control procedures on sub-recipient monitoring we identified the following matters:

- The Commonwealth of Puerto Rico Governor's Authorized Representative does not have a formal written sub-recipient monitoring policy.
- At the date of our audit, we noted that management did not review the findings of the single audit report of the Municipality of Yabucoa for the year ended June 30, 2009. As such, it was not until we requested copy of the single audit report that came to management attention that an audit finding related to FEMA funds was issued.

Status

Similar condition was noted as to the lack of a formal written sub-recipient monitoring policy during the year ended June 30, 2010. Refer to finding 2010-03 and Corrective Action Plan.



Hon. Luis G. Fortuño
Governor

Juan C. Payfa
GAR

March 18, 2011

Scherrer Hernandez & Co.
PO Box 363436
San Juan, Puerto Rico 00936-3436

Re: Management Response
Compliance Attestation Examination of
Public Assistance Grant (97.036)
Hazard Mitigation Grant (97.039)
Crisis Counseling Grant (97.032)
For the year ended June 30, 2010

Dear Gentlemen:

The Commonwealth of Puerto Rico Governors Authorized Representative ("GAR") herein presents its comments for the audit findings 2010-01 and 2010-02:

Finding 2010-01 (Concurring finding) (Material Weakness)

Condition:

The management of the GAR records its transactions related with federal awards in MS Excel spreadsheets. Even though management is currently in the process of evaluating an accounting system for maintaining the GAR's accounting records, no accounting system was used to maintain the GAR's accounting corresponding to federal awards during the fiscal year ended June 30, 2010.

Criteria:

Federal laws and regulations require that recipients of federal awards must maintain an adequate accounting system to account for federal funds in accordance with laws and regulations. Sub-part C - Post-Award Requirements establish that a State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its sub-grantees and cost-type contractors, must be sufficient to:

- Allow the preparation of reports required by this part and the statutes authorizing the grant, and,
- Allow the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes.

- The financial management system of other grantees and sub-grantees must meet the following standards:
 - a) Financial reporting - accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub-grant.
 - b) Accounting records - Grantees and sub-grantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or sub-grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
 - c) Internal control - effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property, and other assets, Grantees and sub-grantees must adequately safeguard all such property and must assure that it issued solely for authorized purposes.

Cause:

GAR's management understands that recording all transactions related to the operations of GAR in Microsoft Excel spreadsheets is sufficient given the volume and their nature.

Effect:

The accounting system does not provide reasonable assurance over the completeness and accuracy of accounting records. In addition, it does not provide for easily access to approved amounts, obligated balances, balance available and other related reports necessary to allow an adequate control of activities. Finally, the risk of potential loss, unauthorized modification or omission of information increases significantly.

Amount of questioned cost:

None.

Recommendation:

GAR should acquire a mechanized accounting system to process all of its accounting transactions to prepare accurate, timely and complete accounting records, which could facilitate the presentation of the GAR's financial results of financially assisted activities. Such system should provide recording and reporting at an adequate level of expenditures, to maintain information of grant or sub-grant awards authorized, funds obligated, and unobligated.

Management response:

In order to attend this matter the GAR office is in the bidding process for the evaluation of the different mechanized accounting systems available to accomplish the necessities. The Office of Management and Budget purchasing department asks for proposals with all the requirements and recommendations included in the Single Audit Report.

Finding 2010-02 (Recurring Finding) (Significant Deficiency)

Condition:

The GAR did not submit the data collection form and reporting package within the earlier of 30 days after the receipt of the auditor's report, or nine months after the end of the audit period.

Criteria:

Laws and regulations under OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations" Subpart C – Auditees - .320 Report Submission, requires that the audit shall be completed and submitted, along with the data collection form and reporting package within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. Unless restricted by law or regulation, the auditee shall make copies available for public inspection.

Cause:

The GAR did not contract on time the external auditors to complete and submit the data collection form and reporting package for the year ended June 30, 2009 Single Audit within the timeframe as required by OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations" Subpart C – Auditees - .320 Report Submission Section.

Effect:

The GAR did not comply with the timely filing of the data collection form and reporting package for the Single Audit of the fiscal year ended June 30, 2009.

Amount of questioned cost:

None.

Recommendation:

The GAR must contract the services of an external auditor to perform the Single Audit report with sufficient time in order to comply with the data collection form and reporting package filing timeframe as required by OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations" Subpart C – Auditees - .320 Report Submission Section.

Management response:

Although we are in knowledge of the requirements to perform the single audit in a timely basis, due to the fiscal situation affecting all the agencies in the commonwealth it was necessary to identify the monies required to proceed with the contract. For subsequent years this will be address in the budget.

Finding 20010-03 (Concurring Finding) (Material Weakness)

<i>Federal Program</i>	U.S. Department of Homeland Security - U.S. Emergency Management Agency: Public Assistance Grant (97.036) Hazard Mitigation Grant (97.039)
<i>Requirement</i>	Compliance and Internal Control
<i>Noncompliance</i>	Sub-Recipient Monitoring Compliance Requirement

Condition:

During our review of the internal control procedures on sub-recipient monitoring we identified the following matters:

- The Commonwealth of Puerto Rico Governor's Authorized Representative does not have a formal written sub-recipient monitoring policy.

Criteria:

Laws and regulations under Public Assistance Grant contain in 31 USC 7502 (f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. 104-156)), OMB Circular A-133, OMB Circular A-102 Common Rule and OMB Circular A-110 require pass-through entities to (1) ensure that sub-recipients expending \$500,000 (as provided in OMB Circular A-133, as revised) or more in Federal awards during the sub-recipient's fiscal year have met the audit requirements of OMB Circular A_133 (Gov. Doc. No. 8) and that the required audits are completed within nine months of the end of the sub-recipient's audit period, (2) issue a management decision on audit findings within six months after receipt of the sub-recipient's audit report, and (3) ensure that the sub-recipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a sub-recipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Cause:

Although GAR as a pass-through entity has in place procedures to monitor their sub-recipients, these procedures are not written in a formal manual.

Effect:

GAR not having a formal written sub-recipient monitoring policy, it is possible that procedures are not followed consistently.

Amount of questioned cost:

None.

Recommendation:

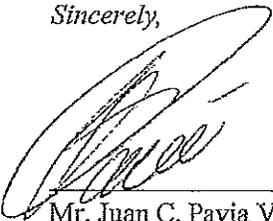
The GAR should prepare and put in place a formal written sub-recipient monitoring policy to ascertain that sub-recipients comply with the following requirements:

- a. Reporting – reviewing within 6 months financial and performance reports submitted by the sub-recipient.
- b. Site Visits – performing site visits at the sub-recipient to review financial and programmatic records and observe operations regardless of amount of federal award pass-through to sub-recipients.
- c. Regular Contact – regular contacts with sub-recipients and appropriate inquiries concerning program activities.

Management response:

Due to the fiscal situation in all Governmental agencies of the Commonwealth a lack of personnel is being affecting all the regular processes that should be performed. Since June 2010 clerical personnel are in charge of the request of the single audits reports and the review of all findings related to the GAR made to all sub-recipients. Although no written procedure has been established in a written manual all the controls and procedures are being performed consistently.

Sincerely,



Mr. Juan C. Pavia Vidal

Governors Authorized Representative