

COMMONWEALTH OF PUERTO RICO
FUTURE ENTREPRENEURS AND WORKERS
TRAINING ADMINISTRATION
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2010



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INDEPENDENT AUDITORS' REPORT

FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION SAN JUAN, PUERTO RICO

We have audited the accompanying Statement of Cash Receipts and Disbursements (the Statement) of the Future Entrepreneurs and Workers Training Administration of the Commonwealth of Puerto Rico (the Agency) for the year ended June 30, 2010. This statement is the responsibility of the Future Entrepreneurs and Workers Training Administration's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with the 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 Statement is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statement's presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note A to the Statement, the Future Entrepreneurs and Workers Training Administration prepares its Statement of Cash Receipts and Disbursements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the Statement referred to above presents fairly, in all material respects, the cash receipts and disbursements of the Future Entrepreneurs and Workers Training Administration of the Commonwealth of Puerto Rico for the year ended June 30, 2010, on the basis of accounting described in Note A.

**Future Entrepreneurs and Workers
Training Administration
Page 2**

The accompanying financial statements have been prepared assuming that the Agency will continue as a going concern. As discussed on Note F to the financial statements, the Agency is in the process of been eliminated as a component unit of the Department of Labor and Human Resources.

In accordance with *Government Auditing Standards* we have also issued a report dated November 29, 2010, on our consideration of the Future Entrepreneurs and Workers Training Administration's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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.

Our audit was performed for the purpose of forming an opinion on the Statement of Cash Receipts and Disbursements of the Agency, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. 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 Statement of the Future Entrepreneurs and Workers Training Administration. Such information has been subjected to the auditing procedures applied in our audit of the Statement and, in our opinion, is fairly stated, in all material respects, in relation to the Statement of Cash Receipts and Disbursements taken as a whole.

Francisco Sánchez & Associates, P.C.

November 29, 2010

The stamp number 2579488 was affixed to the original of this report.





**COMMONWEALTH OF PUERTO RICO
FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
YEAR ENDED JUNE 30, 2010**

Program	STATE FUNDS		FEDERAL FUNDS		TOTAL MEMORANDUM ONLY	
	<u>Receipts</u>	<u>Disbursements</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Receipts</u>	<u>Disbursements</u>
Management and Administration	\$3,601,000	\$4,287,686	\$ -	\$ -	\$3,601,000	\$4,287,686
Vocational and Technical Education	465,000	1,978,889	-	-	465,000	1,978,889
Economic Development	3,617,000	6,619,456	-	-	3,617,000	6,619,456
Integrated Services to Communities	23,000	59,847	-	-	23,000	59,847
National School Lunch Program	-	-	96,088	87,607	96,088	87,607
Public Housing Residents Training Program	-	-	1,077,790	1,482,721	1,077,790	1,482,721
Special Education	300,000	230,220	700,000	486,635	1,000,000	716,855
Joint Resolutions	231,637	808,516	-	-	231,637	808,516
Special Accounts	612,395	664,277	-	-	612,395	664,277
Job Corps	-	-	478,881	-	478,881	-
Other Funds	45,000	13,511	-	-	45,000	13,511
Workforce Investment Act	-	-	-	137,515	-	137,515
	<u>\$ 8,895,032</u>	<u>\$14,662,402</u>	<u>\$2,352,759</u>	<u>\$2,194,478</u>	<u>\$11,247,791</u>	<u>\$16,856,880</u>

See accompanying notes and independent auditors' report.

**COMMONWEALTH OF PUERTO RICO
FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and reporting entity

The Future Entrepreneur and Workers Training Administration (the Agency) was created by Law No. 224 of August 6, 1999, and is a component unit of the Department of Labor and Human Resources of Puerto Rico. The Agency is dedicated to offer vocational trainings to youth people within the ages of 14 and 29, which either dropped out from school or are unemployed, in order to help them to develop their capabilities in different vocational areas so they can obtain and keep and employment and/or establish their own business.

The Agency's operations are funded through appropriations from the Legislature of the Commonwealth of Puerto Rico, federal financial assistance received as a sub grantee of the Puerto Rico's Departments of Housing and Department of Education and through the presentation of proposals to different agencies of the Commonwealth of Puerto Rico.

The Puerto Rico Department of the Treasury acts as the fiscal agent to the Agency and as its disbursement agent, except for certain payments made by the Agency's special disbursing agents, who are appointed and monitored by the Puerto Rico Department of the Treasury.

Basis of presentation

The accounts of the Agency are organized on the basis of two fund types: state funds and federal funds. The Agency maintains appropriations for several individual state and federal funds within each fund type. As more fully explained in the section "Basis of accounting" below, each fund is accounted for a set of accounts which include only cash receipts and disbursements. No balance sheet accounts are reported. The individual funds account for the governmental resources allocated to them for purposes of carrying on specific activities in accordance with laws, regulations and other restrictions. State funds are appropriated by the Legislature of the Commonwealth of Puerto Rico and are the funds through which most functions typically are financed. Federal funds reflect the federal financial assistance managed by the Agency from programs funded by the Federal Government. The individual funds included in these fund types are classified in the following programs:

Management and Administration – These funds are used to account for resources and expenditures related to administrative functions such as accounting, human resources, procurement and general services. These functions are constituted by several offices independent from each other which are responsible for the planning and coordination of the programs administered by the Agency.



COMMONWEALTH OF PUERTO RICO
FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of presentation (continued)

Vocational and Technical Education – These funds are used to account for resources and expenditures related to the programs responsible for: a) development of the vocational, technical, social and human development skills to capacitate the youth of our school and/or economically disadvantaged; and b) employment and retraining services to dislocated workers.

Economic Development – These funds are used to account for the resources and expenditures related to the programs responsible for providing training in the operation and management of businesses for the youth between the ages of 16 and 28 years through training on the skills necessary to initiate an entrepreneurial project.

Integrated Services to Communities – This fund is used to account for resources and expenditures related to the programs responsible for recruiting the youth from public housing projects and special communities and providing them training and employment. The main objective of these programs is to deviate the youth from participating in criminal and/or antisocial behavior.

National School Lunch Program – These funds are used to account for resources or funds granted by the U.S. Department of Agriculture through the Puerto Rico Department of Education for specific purposes in accordance with its applicable laws.

Public Housing Residents Training Program – These Funds are used to account for resources or funds granted by the U.S. Department of Housing and Urban Development through the Puerto Rico Housing Administration for specific purposes in accordance with its applicable laws.

Special Education – These funds are used to account for resources or funds granted by the U.S. Department of Education through the Puerto Rico Department of Education for specific purposes in accordance with its applicable laws.

Joint Resolutions – These funds are used to account for resources authorized by the Legislature of the Commonwealth of Puerto Rico which are designed to attain specific objectives. These allocations remain active until their purposes are fulfilled, independently from the fiscal year approved.

Special Accounts – These funds are used to account for resources or funds that are deposited for specific purposes in accordance with its applicable laws. They may come from service fees, donations from citizens and private entities, and other collections from some governmental entities. The expenditures charged to these accounts are authorized by legislation previously approved.



**COMMONWEALTH OF PUERTO RICO
FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of presentation (continued)

Job Corps – These funds are used to account for resources or funds granted by the US Department of Labor through the Puerto Rico Department of Labor and Human Resources for specific purposes in accordance with its applicable laws.

Receipts reported in the Statement of Cash Receipts and Disbursements corresponds to previous years expenditures that were reimbursed to the Agency during the current fiscal year.

Program “Veraniando en Verde” – These funds are used to account for resources or funds granted by the US Department of Labor through “Consejo de Desarrollo Ocupacional y Recursos Humanos (CDORH) for specific purposes in accordance with the Workforce Investment Act of 1998.

Other Funds – These funds are used to account for resources or funds that are for other purposes. They may also come from service fees, donations from citizen and private entities and other collections from some governmental entities.

Basis of accounting

The Agency follows the cash basis method of accounting to account for all funds administered. Under this method, cash or funds transferred-in are recognized as revenues when received, and expenditures are recognized when funds are disbursed or transferred-out. Therefore, the Statement of Cash Receipts and Disbursements is not intended to present the Agency’s results of operations in accordance with accounting principles generally accepted in the United States of America.

Budgetary accounting

Formal budgetary accounting is employed as a management control tool for all funds of the Agency. Annual operating budgets are adopted each fiscal year through passage of an annual budget which is approved by the Legislature of the Commonwealth of Puerto Rico and amended as required throughout the year.

The Statement of Cash 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.



**COMMONWEALTH OF PUERTO RICO
FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of accounting (continued)

Total Memorandum Only

The total memorandum only columns in the Statement are presented only to facilitate additional analysis. The totals represent a summation of the combined receipts and disbursements. Consequently, amounts shown in these columns are not comparable to a consolidation and do not represent the total receipts and disbursements of the Agency.

NOTE B - RETIREMENT PLANS

All full-time educational employees are covered, and must participate, in the employee retirement plan administered by the Annuity and Pension System for the Teachers of Puerto Rico, which is a cost-sharing plan. Employees and the Agency's contributions for educational employees' salaries are between 7% and 8.5% of total gross salaries.

All other employees are covered, and must participate, in the employee retirement plan administered by the Employees' Retirement System of the Government of Puerto Rico and its instrumentalities, which is a cost-sharing multiple employer plan. Employees must contribute 5.77% for the first \$550 of their monthly gross salary and 8.275% for the salary in excess of \$550. The Agency contributes 9.0% of total gross salaries.

Total contributions made to both pension plans during the year ended June 30, 2010, amounted to \$446,719 for employees paid with state funds and \$12,715 for employees paid with federal funds.

NOTE C - COMPENSATED ABSENCES

The employees of the Agency are classified either educational or non-educational. The educational employees receive vested rights for two months paid vacations at the end of each year of full-time employment and accrue sick leave at two days per month worked. The allowed maximum number of days of accumulated sick leave is 90 days. In case of resignation or early retirement, sick leave is vested for payment if the employee has served for ten or more consecutive years.

The noneducational employees accrue regular vacation and sick leave at 2.5 days and 1.5 days per calendar month, respectively. The allowed maximum number of accumulated days of regular vacation and sick leave is 60 and 90, respectively.

During fiscal year 1997-98, the Commonwealth of Puerto Rico amended the Public Service Personnel Law to allow certain component units and the executive agencies of the Commonwealth to pay annually to the employees the accumulated vacation and sick leave earned in excess of the limits mentioned above.



**COMMONWEALTH OF PUERTO RICO
FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**

NOTE D - COMMITMENTS

The Agency is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore neither the assets nor the liabilities of the lease agreements are reflected in the accounting records. Most leased property is from the Puerto Rico Public Buildings Authority, a component unit of the Commonwealth of Puerto Rico.

Rent paid during the fiscal year ended June 30, 2010, under these lease agreements, amounted to \$18,596. Information of the future minimum rental payments required under the operating leases was not available.

NOTE E - CONTINGENCIES

Litigation – The Agency is a defendant in lawsuits arising in the normal course of operations, principally from claims for alleged discrimination in employment practices. According to the laws of the Commonwealth of Puerto Rico, the Agency is fully represented by the Puerto Rico Department of Justice in defense of all legal cases against the Agency. Any claims with negative financial impact would be paid from the resources of the Agency.

Federal Awards – The Agency participates in a number of federal financial assistance programs funded by the federal government. Expenditures financed by these programs are subject to financial and compliance audits by the corresponding grantors. If expenditures are disallowed due to noncompliance with grant program regulations, the Agency may be required to reimburse the grantors.

The report on compliance and internal control over compliance applicable to each major federal award program for the year ended June 30, 2010, disclosed several material instances of noncompliance with applicable laws and regulations and significant deficiencies conditions and material weaknesses in the internal accounting and administrative controls.

The Agency is also audited by the Office of the Controller for Puerto Rico (the Controller). The Controller has issued several reports on audits over the operations and management of several federal programs of the Agency. As per the Controller, the Agency currently have some findings that are in process of resolution through various corrective action plans.



**COMMONWEALTH OF PUERTO RICO
FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**

NOTE F- GOING CONCERN

During the month of October 2010, it was announced that the Government of Puerto Rico plans to merge the Agency with the Department of Labor and Human Resources of Puerto Rico (DLHR). Even when the structure of the Agency is not expected to be changed, the Agency will no longer be an independent component of the DLHR. The government expects the merge process to be completed by June 2011. These factors raise substantial doubt about the Agency's ability to continue as a going concern. The statement do not include any adjustment that might result from the outcome of this uncertainty.

NOTE G – SUBSEQUENT EVENTS

Management has evaluated subsequent event up to November 29, 2010, the date the financial statements were available to be issued. As explained in Note F, in October 2010 it was announced that the Government of Puerto Rico plans to merge the Agency with the DLHR and provide services directly from the facilities of the DLHR. The government expects the merge process to be completed by June 2011.



SUPPLEMENTARY INFORMATION



**COMMONWEALTH OF PUERTO RICO
 FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2010**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	CFDA/Contract Number	Federal Expenditures
U.S. Department of Agriculture/Pass through the Puerto Rico Department of Education National School Lunch Program	10.555	\$ 87,607
U.S. Department of Housing and Urban Development/Pass through the Puerto Rico Housing Administration Public Housing Residents Training Program (Operating Fund)	14.850	1,482,721
U.S. Department of Education Special Education Program	84.027	486,635
U.S. Department of Labor /Pass through "Consejo de Desarrollo Ocupacional y Recursos Humanos" (CDORH) Workforce Investment Act Funds (WIA) Program "Veraniando en Verde"	N/A	<u>137,515</u> <u>\$2,194,478</u>



See accompanying notes to schedule of expenditures of federal awards.

**COMMONWEALTH OF PUERTO RICO
FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
NOTE TO SCHEDULE EXPENDITURES OF FEDERAL AWARDS**

BASIS OF PRESENTATION

The supplementary Schedule of Expenditures of Federal Awards has been prepared using the cash basis method of accounting. It is drawn primarily from the Agency's internal accounting records, which are the basis for the Agency's Statement of Cash Receipts and Disbursements (the Statement).





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**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**

**Future Entrepreneurs and Workers Training Administration
San Juan, Puerto Rico**

We have audited the Statement of Cash Receipts and Disbursements (the Statement) of the Future Entrepreneurs and Workers Training Administration of the Commonwealth of Puerto Rico (the Agency) for the year ended June 30, 2010, and have issued our report thereon dated November 29, 2010. 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. As described in Note A to the Statement, the Agency prepares its Statement on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency'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 Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 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 presented 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness. (Findings No. 10-1).

Compliance and other matters

As part of obtaining reasonable assurance about whether the Agency's Statement 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 instances of noncompliance and 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 **Findings No. 10-01** through **10-03**.

The Agency's response to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management and officials of the Future Entrepreneurs and Workers Training Administration of the Commonwealth of Puerto Rico, the Puerto Rico Occupational Development and Human Resources Council, the Commonwealth of Puerto Rico and the United States Department of Labor (oversight agency), federal awarding agencies, pass-through entities, and other regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Salvador Sanchez & Associates, P.S.C.

November 29, 2010

The stamp number 2579489 was affixed to the original of this report.





**FALCON SANCHEZ
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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**

**Future Entrepreneurs and Workers
Training Administration
San Juan, Puerto Rico**

Compliance

We have audited the compliance of the Future Entrepreneurs and Workers Training Administration of the Commonwealth of Puerto Rico (the Agency) with the types of compliance requirements described in the "US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each major federal programs for the year ended June 30, 2010. The Future Entrepreneurs and Workers Training Administration'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 Future Entrepreneurs and Workers Training Administration's management. Our responsibility is to express an opinion on the Future Entrepreneurs and Workers Training Administration'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 Future Entrepreneurs and Workers Training Administration'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 on the Future Entrepreneurs and Workers Training Administration's compliance with those requirements.

**Future Entrepreneurs and Workers
Training Administration
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As described in **Findings No. 10-01** through **10-03** in the accompanying schedule of findings and questioned costs, the Future Entrepreneurs and Workers Training Administration did not comply with the compliance requirements applicable to its major programs, as follow:

<u>Compliance Requirement</u>	<u>CFDA Number</u>	<u>Program</u>	<u>Reference Number</u>
Activities Allowed or Unallowed	CFDA 84.027 CFDA 14.850	Special education Public Housing Residents Training Program (Operating Fund)	10-02
Allowable Costs/Costs Principles	CFDA 84.027 CFDA 14.850	Special Education Public Housing Residents Training Program (Operating Fund)	10-02
Eligibility	CFDA 14.850	Public Housing Residents Training Program (Operating Fund)	10-03
Reporting	CFDA 84.027	Special Education	10-01

Compliance with such requirements is necessary, in our opinion, for the Agency to comply with the requirements applicable to those programs.

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

Internal Control Over Compliance

Management of the Agency 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 Agency's internal control over compliance with 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 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 Agency's internal control over compliance.



A deficiency in 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.

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 deficiencies in internal control over compliance that we consider to be material weaknesses.

A material weakness is a significant deficiency, or combination of 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 10-02 through 10-03 to be material weaknesses.

Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management and officials of the Future Entrepreneurs and Workers Training Administration of the Commonwealth of Puerto Rico, the Puerto Rico Occupational Development and Human Resources Council, the Commonwealth of Puerto Rico and the United States Department of Labor (oversight Agency), federal awarding agencies, pass-through entities, and other regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Paul D. Sanchez & Associates, PSC

November 29, 2010

The stamp number 2579490 was
affixed to the original of this
report.



COMMONWEALTH OF PUERTO RICO
FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

SUMMARY OF AUDITORS' RESULTS

1. The independent auditors' report on the statement of cash receipts and disbursements expressed an unqualified opinion. Also, it reported that such statement was prepared using the cash basis method of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
2. Significant deficiencies on internal control over financial reporting were identified, all of which are considered material weaknesses.
3. Significant deficiencies on internal control over compliance with requirements applicable to major federal award programs were identified, all of which are considered material weaknesses.
4. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed qualified opinions on each of the following major programs:

CFDA 84.027	Special Education – Grants to States
CFDA 14.850	Public Housing Residents Training Program (Operating Fund)
5. The audit disclosed findings required to be reported under OMB Circular A-133.
6. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
7. The Agency did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.



COMMONWEALTH OF PUERTO RICO
FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2010

FINDING NO. 10-01 ACCOUNTING RECORDS

Information on the Federal Program

State and federal financial assistance programs

Criteria

34 CFR 76.702 establishes that a state and a sub grantee shall use fiscal control and fund accounting procedures that ensure proper disbursement and accounting of federal funds.

34 CFR 80.20 (a) and (b) (1) (2) and (4) establish that:

- a. A state must expend 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 those of its sub grantees and cost-type contractors, must be sufficient to:
 - i. Permit preparation of reports required by this part and the statutes authorizing the grant, and
 - ii. Permit the tracing of funds to a level of expenditures adequate to establish that these funds have not been used in violation of the restriction and prohibitions of applicable statutes.
- b. The financial management systems of the grantees and sub grantees must meet the following standards:
 - i. 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.
 - ii. Accounting records - Grantees and sub grantees must maintain records that 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.



COMMONWEALTH OF PUERTO RICO
FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2010

FINDING NO. 10-01 ACCOUNTING RECORDS (CONTINUED)

Criteria (continued)

- iii. Budget Control - Actual expenditures or outlays must be compared with budgeted amounts for each grant or sub grant. Financial information must be related to performance or productivity area, including the development of unit cost information whenever appropriate or specifically required in the grant or sub grant agreement.

Condition

During our audit procedures for the fiscal year ended June 30, 2010, we noted that the Agency does not maintain a general ledger to integrate the subsidiary ledgers of its governmental fund types. Accordingly, the Agency is unable to prepare monthly financial statements. Monthly financial statements are necessary to assess the Agency's financial position, which is imperative to enable timely, effective, and efficient management decisions. Additionally, the Agency does not maintain adequate budgeting policies and procedures, and have inappropriate and/or incomplete cut-off procedures, as well as incomplete month-end and year-end closing procedures. The following deficiencies related to the accounting procedures and financial reporting practices were noted during our audit;

- Our review of the procedures followed regarding the use of the budget as a control tool revealed that no budget versus actual comparisons were prepared to evaluate Agency's performance. The financial management system shall also establish a relation of financial information with performance or productivity data, including the production of unit cost information whenever appropriate.

Even when Agency maintains a budget versus actual at the accounts level, it does not maintain one at the financial statements level. A budget versus actual at the financial statements level allows management to plan the actions necessary for achieving desired or anticipated results. The Agency's record-system should provide a mechanism to ensure that costs do not exceed the budgeted level for each program activity or other budget category.



COMMONWEALTH OF PUERTO RICO
FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2010

FINDING NO. 10-01 ACCOUNTING RECORDS (CONTINUED)

Condition (continued)

The system must maintain cumulative expenditures, provide information for comparison of budgeted and actual costs and determine amounts available for future expenditures. As an additional step in grantee resource management, Agency's officials should periodically review the status of planned expenditures. If a function or activity does not require the amount originally budgeted and the Federal Agency or the terms of the grant agreement permit, the balance can be reallocated to other activities.

Questioned Costs \$-0-

Context

Refer to condition

Effect

The lack of adequate fiscal control and accounting procedures prevents the Agency from having accurate, current, and complete disclosure of the financial statements of financially assisted activities in accordance with the requirements of the grant agreements.

Cause

Agency does not have the appropriate procedures for generating accounting and budgeting reports.



COMMONWEALTH OF PUERTO RICO
FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2010

FINDING NO. 10-01 ACCOUNTING RECORDS (CONTINUED)

Recommendations

We recommend the Agency to implement a general ledger accounting system to integrate the subsidiary ledgers of its governmental fund types and account groups. Each subsidiary ledger should be reconciled to the general ledger on a monthly basis. This would allow the Agency to prepare monthly financial statements. Also, the accounting personnel must be closely supervised to ensure the accuracy of the financial reports.

The Agency shall revise its accounting practices and policies to provide for an accurate financial reporting system. This will require close coordination with the Puerto Rico Department of the Treasury for the implementation of an accounting and financial management system that permits the preparation of financial information and reports required by the different oversight entities. This plan should:

- Consider the changes and developments in the governmental accounting industry and their impact on the financial and operational practices of the Agency.
- Consider the integration, extraction and conversion of the personnel and payroll data.

Additionally, the Agency shall adequately train its personnel as to the importance of proper accounting procedures and emphasize in the accuracy and complete recording of the transaction dates.

We also recommend the Agency to compare budget information to actual results of operations on a regular basis at the financial statements and individual accounts levels and to investigate the causes for significant variances, so that corrective action could be taken, if necessary.

Views of Responsible Officials and Planned Corrective Actions

See corrective action plan.



**COMMONWEALTH OF PUERTO RICO
 FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
 YEAR ENDED JUNE 30, 2010**

FINDING NO. 10-02 PERSONNEL FILES

Information on the Federal Program

CFDA 84.027 Special Education
 CFDA 14.850 Public Housing Resident Training Program

Criteria

Article 15 (1) and (2) of the Agency's personnel regulation establishes that all employees' files should maintain a complete history since their first date of recruitment until the last day of work. Agency's will be responsible for the conservation, custody and maintenance of the personnel files according with Law No. 5 of December 8, 1955, as amended, including document filing and retention activities. Human Resources regulations establish that in order for an employee to be hired, the candidate should provide all relevant and required in order to provide evidence of eligibility and adequacy for employment.

Condition

The Agency has approximately 350 employees. To test compensation for personnel services we selected for test a random sample of 96 employees. This sample was divided into the following:

1. During the personnel files test, we noted that the following documentation was missing from the employees' files examined:

<u>Document Missing</u>	<u>Internal controls exceptions found</u>	<u>Percentage of exceptions to total sample tested</u>
Employment application	1	1%
Certificate of Degree/Transcripts	6	6%
Birth certificate	1	1%
Certificate of no Penal Records	1	1%
Health Certificate/Medical Exam	2	2%
ASUME Negative Debt Certificate	1	1%
Receipt of Ethics Code	2	2%

COMMONWEALTH OF PUERTO RICO
 FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
 YEAR ENDED JUNE 30, 2010

FINDING NO. 10-02 PERSONNEL FILES (CONTINUED)

<u>Document Missing</u>	<u>Internal controls exceptions found</u>	<u>Percentage of exceptions to total sample tested</u>
Current Training Records Evidence	13	13%
Performance Evaluation	35	35%
Auto Identification Form	15	15%
Teacher's Certificate	1	1%

Questioned Costs \$-0-

Context

We selected 96 employee files from the population of the Agency and found no evidence of certain documents.

Effect

Incomplete files and personnel not meeting state employment laws and regulations and federal merit system could lead to cost disallowances and misleading financial information.

Cause

The Agency does not have the appropriate procedures for obtaining the employees' required documents.

**COMMONWEALTH OF PUERTO RICO
FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2010**

FINDING NO. 10-02 PERSONNEL FILES (CONTINUED)

Recommendations

The Agency shall develop a comprehensive plan to ensure that: a) all the personnel files are complete; and b) all personnel required reports are prepared and processed immediately. The Agency shall also develop and implement personnel activity reports requiring the signature of the employees that perform activities under federal and state programs.

Views of Responsible Officials and Planned Corrective Actions

See corrective action plan.



COMMONWEALTH OF PUERTO RICO
 FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
 YEAR ENDED JUNE 30, 2010

FINDING NO. 10-03 PARTICIPANT'S ELIGIBILITY

Information on the Federal Program

CFDA 14.850 Public Housing Resident Training Program

Criteria

CFDA 14.850 states that individuals eligible for assistance through the applications receiving the funds include workers who have lost their jobs; including those dislocated as a result of plant closings or mass layoff, and are unlikely to return to their previous industry or occupation; formerly self-employed individuals; and displaced homemakers who have been dependent on income of another family member, but are no longer supported by that income.

Condition

1. In order to test the eligibility requirements for the Public Housing Residents Training Program we selected a total of 30 participants. During our test we noted that the following documentation was either missing or incomplete:

<u>Document Missing or Incomplete</u>	<u>Compliance exceptions found</u>	<u>Percentage of exceptions</u>
Attendance Form	1	3%
Business Plan Evaluation Sheet	5	17%
Selective Service Registration Evidence	1	3%

Questioned Costs Unknown

COMMONWEALTH OF PUERTO RICO
FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2010

FINDING NO. 10-03 PARTICIPANT'S ELIGIBILITY (CONTINUED)

Context

We selected 30 participants' files from the Federal programs and found that seven (7) files have documents missing.

Effect

Missing documentation that is required for eligibility purposes could lead to providing benefits to participants that might be ineligible and could mislead the financial information.

Cause

The Agency does not have the existing procedures in place for obtaining the participants' required documents.

Recommendation

The Agency shall develop a comprehensive plan to ensure that: a) all the participant files are complete; and b) all participant required evidence is obtained and processed immediately.

Views of Responsible Officials and Planned Corrective Actions

See corrective action plan.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

COMMONWEALTH OF PUERTO RICO
 FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
 SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
 YEAR ENDED JUNE 30, 2010

<u>Finding/ Noncompliance</u>	<u>Questioned Costs</u>	<u>Status</u>
June 30, 2009		
<u>Finding No. 09-01 Accounting Records</u>		
Category - Internal Control		
<ul style="list-style-type: none"> No budget versus actual comparison were prepared to evaluate Agency's performance. 	-0-	Similar condition noted during our 2009-2010 audit. See 10-01
<u>Finding No. 09-02 Personnel files, payroll and time and time distribution system</u>		
Category-Compliance/ Internal Control		
<ul style="list-style-type: none"> Personal Files - During personnel files testing, we noted that several documentation was missing from the employees' files examined. 	-0-	There were similar instances of noncompliance during our 2009-2010 audit. See 10-02
<u>Finding No. 09-03 Participants Eligibility</u>		
Category -- Compliance /Internal Control		
<ul style="list-style-type: none"> Participant files -- during eligibility testing, we noted that several documentation required establishing participant eligibility were missing from the participant file. 	-0-	There were similar instances of noncompliance during our 2009-2010 audit. See 10-03



**DEPARTMENT OF LABOR AND HUMAN RESOURCES
FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION**

CORRECTIVE ACTION PLAN

Financial Statement Date: November 29, 2010
 Audit Period: 2009-2010
 Year Ended: June 30, 2010

Designed Official: Luz H. Morales Rosario
 Title: Director of Internal Audit
 Phone Number: (787) 729-4476

Certify Correct:

AUDIT FINDING	RECOMENDATION	CORRECTIVE ACTION	COMPLETION DATE
<p>Finding No. 10-01</p> <p>Category: Internal Controls</p> <p>The Agency does not maintain a general ledger to integrate the subsidiary ledgers of its government fund types. Accordingly the Agency is unable to prepare monthly financial statements. Additionally, the Agency does not maintain adequate budgeting policies and procedures, and have inappropriate and/or incomplete cut-off procedures, as well as incomplete month-end and year-end closing procedures.</p>	<p>We recommend the Agency to implement a general ledger accounting system to integrate the subsidiary ledgers of its governmental fund types and account groups. Each subsidiary ledger should be reconciled to the general ledger on a monthly basis. This would allow the Agency to prepare monthly financial statements. Also, the accounting personnel must be closely supervised to ensure the accuracy of the financial reports. In addition The Agency shall revise its accounting practices and policies to provide for an accurate financial reporting system.</p>	<p>As established in Note F to the Statement of Cash Receipts and Disbursements, during the month of October 2010 it was announced a government plan to merge the Agency with the Department of Labor and Human Resources (DLHR). As part of the merge process, the Agency plans to adopt DLHR accounting and human resources policies and procedures. This includes adopting their general ledger system and budgeting procedures. In addition, we will follow their Internal Controls over financial reporting, personnel files, procurement and eligibility determination. By doing this we expect to correct all internal control and compliance deficiencies identified by you during your audit</p>	<p>June 2011</p>

**DEPARTMENT OF LABOR AND HUMAN RESOURCES
FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION**

CORRECTIVE ACTION PLAN

Financial Statement Date: November 29, 2010
 Audit Period: 2009-2010
 Year Ended: June 30, 2010

Designed Official: Luz H. Morales Rosario
 Title: Director of Internal Audit
 Phone Number: (787) 729-4476

Certify Correct:

AUDIT FINDING	RECOMENDATION	CORRECTIVE ACTION	COMPLETION DATE
<p>Finding No. 10-3</p> <p>Category: Internal Controls and Compliance</p> <p>During our Eligibility Test we noted that in some instances the Agency did not properly documents the participant's compliance with the eligibility requirements.</p>	<p>We recommend the Agency to develop a comprehensive plan to ensure that:</p> <ul style="list-style-type: none"> a) all the participant files are complete; and b) all participant required evidence is obtained and processed immediately. 	<p>As established in Note F to the Statement of Cash Receipts and Disbursements, during the month of October 2010 it was announced a government plan to merge the Agency with the Department of Labor and Human Resources (DLHR). As part of the merge process, the Agency plans to adopt DLHR accounting and human resources policies and procedures. This includes adopting their general ledger system and budgeting procedures. In addition, we will follow their Internal Controls over financial reporting, personnel files, procurement and eligibility determination. By doing this we expect to correct all internal control and compliance deficiencies identified by you during your audit</p>	<p align="center">June 2011</p>