

COMMONWEALTH OF PUERTO RICO
FUTURE ENTREPRENEURS AND WORKERS
TRAINING ADMINISTRATION
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2011



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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 FEWTA) for the year ended June 30, 2011. 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, 2011, 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 FEWTA will continue as a going concern. As discussed on Note F to the financial statements, the FEWTA is in the process of being 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 December 21, 2011, 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 FEWTA, 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.

Lal P. Sanchez & Associates, PSC

December 21, 2011

The stamp number 2630912 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, 2011

Program	STATE FUNDS		FEDERAL FUNDS		MEMORANDUM ONLY	
	Receipts	Disbursements	Receipts	Disbursements	Receipts	Disbursements
Management and Administration	\$ 3,110,000	\$ 3,032,788	\$ -	\$ -	\$ 3,110,000	\$ 3,032,788
Vocational and Technical Education	1,410,218	1,410,218	-	-	1,410,218	1,410,218
Economic Development	4,285,226	4,285,226	-	-	4,285,226	4,285,226
Integrated Services to Communities	51,000	51,000	-	-	51,000	51,000
National School Lunch Program	-	-	72,568	59,881	72,568	59,881
Special Education Program	300,000	249,942	700,000	555,261	1,000,000	805,203
Temporary Assistance to Needy Families Program	-	-	100,066	11,945	100,066	11,945
Rehabilitation Services - Vocational Rehabilitation Grants for States	-	-	21,000	84,672	21,000	84,672
WIA Adult Program	-	-	-	21,722	-	21,722
WIA Dislocated Workers Program	-	-	-	13,426	-	13,426
WIA Youth Activities Program	-	-	-	55,444	-	55,444
Joint Resolutions	345,112	408,425	-	-	345,112	408,425
Special Accounts	951,780	1,487,267	-	-	951,780	1,487,267
	<u>\$ 10,453,336</u>	<u>\$ 10,924,866</u>	<u>\$ 893,634</u>	<u>\$ 802,351</u>	<u>\$ 11,346,970</u>	<u>\$ 11,727,217</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 FEWTA) 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 FEWTA 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 an employment and/or establish their own business.

The FEWTA's operations are funded through appropriations from the Legislature through the Commonwealth of Puerto Rico, federal financial assistance received as a sub grantee of the Puerto Rico's Department of Labor 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 FEWTA and as its disbursement agent, except for certain payments made by the FEWTA's special disbursing agents, who are appointed and monitored by the Puerto Rico Department of the Treasury.

Basis of presentation

The accounts of the FEWTA are organized on the basis of two fund types: state funds and federal funds. The FEWTA 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 FEWTA 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, personnel, purchases 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 FEWTA.

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.

**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)

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, regulations, contracts and grant agreements.

Temporary Assistance For the Needy Families Program - The funds are used to account for resources or funds granted by the U.S. Department of Health and Human Services (HHS) passed through the Puerto Rico Social Economic Development Administration (SEDA) which is a component unit of the Puerto Rico Family Department. The natures of the services provided by FEWTA are vocational, technical and business trainings through the ETV section of FEWTA.

Rehabilitation Services – Vocational Rehabilitation Grants for States-ARRA – The funds are used to account for resources or funds granted by the U.S. Department of Education pass through then Puerto Rico Administration of Vocational Rehabilitation for specific purposes in accordance with its applicable laws, regulations, contracts and grant agreements.

WIA Dislocated Workers Program – The funds are used to account for resources or funds granted by the U.S. Department of Labor passed through Puerto Rico Occupational Development and Human Resources Council. The nature of the program consist on providing entrepreneurship development and training to persons who have been removed from employment or unemployed as permitted in the WIA act, its rules and interpretations.

WIA Youth Activities Program - The funds are used to account for resources or funds granted by the U.S. Department of Labor passed through the Puerto Rico Occupational Development and Human Resources Council. The nature of the program consist on improving the academic preparation of youth participants with an emphasis on activities related to energy consumption, recycling, reutilization of energy and green employments.

**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)

WIA Adult Program – The funds are used to account for resources or funds granted by the U.S. Department of Labor passed through the Northwest Consortium of Puerto Rico for specific purposes in accordance with its applicable laws, regulations, contracts and grant agreements.

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 purposes. 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.

Basis of accounting

The FEWTA 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 FEWTA'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 FEWTA. 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)

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 FEWTA.

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 FEWTA'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 FEWTA contributes 9.0% of total gross salaries.

Total contributions made to both pension plans during the year ended June 30, 2011, amounted to \$605,259 for employees paid with state funds and \$17,928 for employees paid with federal funds.

NOTE C - COMPENSATED ABSENCES

The employees of the FEWTA are classified either educational or noneducational. 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 FEWTA 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, 2011, under these lease agreements, amounted to \$18,597. Information of the future minimum rental payments required under the operating leases was not available.

NOTE E - CONTINGENCIES

Litigation – The FEWTA 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 FEWTA is fully represented by the Puerto Rico Department of Justice in defense of all legal cases against the FEWTA. Any claims with negative financial impact would be paid from the resources of the FEWTA.

Federal Awards – The FEWTA 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 FEWTA 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, 2011, 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 FEWTA 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 FEWTA. As per the Controller, the FEWTA currently has some findings that are in process of resolution through various corrective action plans.

NOTE F- GOING CONCERN

The Reorganization Plan No. 9 of 2010 states that the Puerto Rico Department of Labor and Human Resources (PRDOLHR) will be re-organized by consolidating the FEWTA with itself. The bill indicates that all personnel, operations, assets and liabilities will be transferred to the PRDOLHR. This plan has been created based on the requirements of the Reorganization and Modernization of the Executive Branch of the Government of Puerto Rico of 2009 bill.

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

NOTE F- GOING CONCERN (CONTINUED)

The plan which passed approval by the Puerto Rico House of Representatives was amended and approved by Puerto Rico Senate on November 10, 2011. On November 14, 2011 The House of Representatives approved the adopted amendments by the Senate and is waiting for the Puerto Rico Governor's signature.

These factors raise substantial doubt about the FEWTA's ability to continue as a going concern. The statements do not include any adjustment that might result from the outcome of this uncertainty.

NOTE G -TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Future Entrepreneurs and Workers Training Administration (FEWTA). Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50 % of each employee' salary, as defined. In this early retirement benefit program, the FEWTA will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. As per Article 4(a) economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, following Article 7 of the Act No. 70, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the FEWTA.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the FEWTA's financial statements of receipts totaling \$570,879 and distributions amounting \$544,415 in the Schedule of Cash Receipts and Disbursements (the Statement) as of June 30, 2011.

NOTE H- SUBSEQUENT EVENTS

Management has evaluated subsequent event up to November 30, 2011, the date the financial statements were available to be issued. As explained in Note F, the reorganization plan was approved by the Puerto Rico Senate and House of Representatives and is waiting for the Puerto Rico Governor's signature.

SUPPLEMENTARY INFORMATION



COMMONWEALTH OF PUERTO RICO
 FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2011

Federal Grantor/Passed Through Grantor

<u>Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Contract Period</u>	<u>Award Amount</u>	<u>Federal Expenditures</u>
<u>US Department of Education Passed Through the Puerto Rico Department of Education</u>				
Special Education Program	84.027	August 23, 2010 - June 30, 2011	\$700,000	\$ 555,261
<u>U.S. Department of Education Passed through the Administration of Vocational Rehabilitation</u>				
Rehabilitation Services-Vocational Rehabilitation State Grants-ARRA	84.39	November 1, 2010-September 30, 2011	168,000	84,672
Total U.S. Department of Education			<u>\$868,000</u>	<u>\$ 639,933</u>
<u>U.S. Department of Labor Passed through the Puerto Rico Occupational Development and Human Resources Council</u>				
WIA Dislocated Workers Program	17.260	March 7, 2011 - June 30, 2011	\$ 16,500	\$ 13,426
WIA Youth Activities Program	17.259	June 6, 2011 - June 30, 2011	157,440	55,444
<u>U.S. Department of Labor Passed through the Puerto Rico Northwest Consortium</u>				
WIA Adult Program - ARRA	17.258	December 1, 2010 - June 30, 2011	140,000	21,722
Total U.S. Department of Labor			<u>\$313,940</u>	<u>\$ 90,592</u>
<u>US Department of Agriculture Passed through Puerto Rico Department of Education</u>				
National School Lunch Program	10.555	July 1, 2010 - June 30, 2013	\$140,000	\$ 59,881
<u>U.S. Department of Health & Human Services Passed through Puerto Rico Social Economic Development Administration</u>				
Temporary Assistance For Needy Families	93.558	September 14, 2010 - November 13, 2010	\$220,500	\$ 11,945

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 accompanying Schedule of Expenditures of Federal Awards includes the Federal grant sub-award activity of the Future Entrepreneurs and Workers Training Administration and is presented using the cash basis method of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. It is drawn primarily from the FEWTA's internal accounting records, which are the basis for the FEWTA's Statement of Cash Receipts and Disbursements (the Statement).





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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 FEWTA) 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, 2011. 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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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. 11-1).

Compliance and other matters

As part of obtaining reasonable assurance about whether the FEWTA'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 **Finding No. 11-01**.

The FEWTA's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the FEWTA'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.

L. A. Sanchez & Associates, P.C.

December 21, 2011

The stamp number 2630913 was affixed to the original of this report.



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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 FEWTA) 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, 2011. 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 **Finding No. 11-01** 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>
Reporting	CFDA 84.027	Special Education	11-01

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

In our opinion, except for the noncompliance with the compliance requirement described above, the FEWTA 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, 2011.

Internal Control Over Compliance

Management of the FEWTA 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 FEWTA'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 FEWTA'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.

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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 11-01 to be material weaknesses.

FEWTA's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit FEWTA'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.

Luis D. Sanchez & Associates, PSC

December 21, 2011

The stamp number 2630914 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, 2011**

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 the following major programs:

CFDA 84.027 Special Education – Grants to States
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 FEWTA 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, 2011

FINDING NO. 11-01 ACCOUNTING RECORDS/REPORTING

Information on the Federal Program

State and federal financial assistance programs

CFDA 84-027 Special Education

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, 2011

FINDING NO. 11-01 ACCOUNTING RECORDS/REPORTING (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.
- c. The Fourth Clause of the agreement between the Puerto Rico Department of Education and the FEWTA establishes the following:
 - i. Quarterly Financial Reports – These reports need to include the amounts transferred to the program, quarterly expenditures, accumulated expenditures and available fund balance.

Condition

During our audit procedures for the fiscal year ended June 30, 2011, we noted that the FEWTA does not maintain a general ledger to integrate the subsidiary ledgers of its governmental fund types. Accordingly, the FEWTA is unable to prepare their financial statements in accordance with GASB 34. 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 was prepared to evaluate FEWTA's performance. A budget versus actual at the financial statements level allows management to plan the actions necessary for achieving desired or anticipated results. The FEWTA'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.
- Our review of the reporting procedures applicable to the Special Education Program revealed that the FEWTA did not prepared and submitted the quarterly financial reports as required by the primary recipient as stated in the agreement between the parties. Even when the FEWTA submits final expense reports, the inability to provide the primary recipient with quarterly information does not allow it to provide proper and timely monitoring of the sub recipient.



COMMONWEALTH OF PUERTO RICO
FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

FINDING NO. 11-01 ACCOUNTING RECORDS/REPORTING (CONTINUED)

Questioned Costs \$-0-

Context

Refer to condition

Effect

The lack of adequate fiscal control and accounting procedures prevents the FEWTA 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

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

Recommendations

See corrective action plan.

Views of Responsible Officials and Planned Corrective Actions

See corrective action plan.



SECTION 1
PART I
CHAPTER 1

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

1.000
1.001
1.002
1.003
1.004
1.005

COMMONWEALTH OF PUERTO RICO
 FUTURE ENTREPRENEURS AND WORKERS TRAINING ADMINISTRATION
 SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
 YEAR ENDED JUNE 30, 2011

<u>Finding/ Noncompliance</u>	<u>Questioned Costs</u>	<u>Status</u>
June 30, 2010		
<u>Finding No. 10-01 Accounting Records</u>		
Category - Internal Control		
<ul style="list-style-type: none"> Accounting Records not in accordance with GASB 34 	-0-	Similar condition noted during our 2010-2011 audit. See 11-01
<u>Finding No. 10-02 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-	No similar instances found during our 2010-2011 audit.
<u>Finding No. 10-03 Participants Eligibility</u>		
Category – Compliance /Internal Control		
<ul style="list-style-type: none"> Participant files – during eligibility testing, we noted that several documentations required establishing participant eligibility were missing from the participant file. 	-0-	Not applicable per Special Education Compliance Matrix.



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

CORRECTIVE ACTION PLAN

Financial Statement Date:	December 21, 2011	Designed Official:	Luz H. Morales Rosario
Audit Period:	2010-2011	Title:	Director of Internal Audit
Year Ended:	June 30, 2011	Phone Number:	(787) 729-4476

Certify Correct:

AUDIT FINDING	RECOMENDATION	CORRECTIVE ACTION	COMPLETION DATE
<p>Finding No. 11-01</p> <p>Category: Internal Controls</p> <p>The FEWTA has been unable to prepare their financial statements in accordance with GASB 34. In addition, management has been unable to deliver quarterly financial reports as required by the Special Education Program.</p>	<p>We recommend that this matter be corrected as soon as the FEWTA financial records get integrated with the accounting system of the Department of Labor and Human Resources. However, we encourage management to compile the necessary information to comply with the quarterly reports for Special Education.</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 FEWTA with the Department of Labor and Human Resources (DLHR). As part of this consolidation process, the FEWTA 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. By doing this we expect to correct all internal control and compliance deficiencies identified by you during your audit.</p>	<p>June 2012</p>

