

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of
Puerto Rico)

SINGLE AUDIT REPORT

June 30, 2009



INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
TABLE OF CONTENTS

I. Independent Auditors' Report 1

II. Management Discussion and Analysis 3

III. Statement of Net Assets 8

IV. Statement of Activities 9

V. Balance Sheet – Governmental Funds 10

VI. Reconciliation of the Governmental Funds Balance Sheet to
Statements of Net Assets 11

VII. Statement of Revenues, Expenditures, and Changes in Fund
Balance – Governmental Funds 12

VIII. Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds with the
Statement of Activities 13

IX. Statement of Fiduciary Net Assets - Fiduciary Funds 14

X. Statements of Revenues, Expenditures, and Changes in Fund
Balances – Budget and Actual Governmental Funds 15

XI. Notes to the Financial Statements 16

XII. Schedule of Expenditures of Federal Awards 26

XIII. Notes to the Schedule of Expenditures of Federal Awards 27

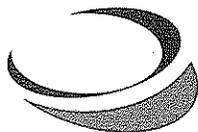
XIV. Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards 28

XV. 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 30

XVI. Schedule of Findings and Questioned Costs 32

XVII. Status on Prior Year Audit Findings 47





INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Institute of Puerto Rican Culture:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Institute of Puerto Rican Culture (the "Institute"), a component unit of the Commonwealth of Puerto Rico, as of and for the fiscal year ended June 30, 2009, which collectively comprise the Institute's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We did not observe the taking of the physical inventory of materials, supplies and publications for an aggregate amount of \$1,610,860 as of June 30, 2009, and were unable to satisfy ourselves about the existence of such inventory by means of other auditing procedures.

As more fully described in Note 1 to the financial statements, the Institute generally records its capital assets at cost. Appraisals for certain donated or contributed collections were not performed. Capital assets should be recorded at cost, if purchased, or at fair value at the time of donation, if donated or contributed, to conform with governmental accounting principles generally accepted in the United States of America, and those amounts should be depreciated over the estimated useful lives of the assets, if applicable. The Institute's capital assets are stated net of accumulated depreciation at \$82,398,029 at June 30, 2009, and are currently under a process of reconciliation of the subsidiaries to the physical assets. We were unable to satisfy ourselves about the completeness and accuracy of the capital assets records maintained by the Institute.

The Institute does not follow encumbrance accounting and does not maintain a reconciled ledger of the Institute encumbrances' balance at June 30, 2009.

In our opinion, except for the effect of the matters described in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and major funds of the Institute of Puerto Rican Culture as of June 30, 2009, and the changes in its net assets and fund balances for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 27, 2010 on our consideration of the Institute's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial

reporting and compliance and the results of that testing, and not to provide an opinion on 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 important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 7, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying management's discussion and analysis is not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurement and presentation of the required supplementary information. We did not audit such information and express no opinion on it.

Scherrer Hernandez & Co.

San Juan, Puerto Rico

August 25, 2010

Certified Public Accountants
(of Puerto Rico)

License No. 53 expires December 1, 2012
Stamp 2511432 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report



**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

Our discussion and analysis of the Institute of Puerto Rican Culture financial performance provide an overview of the Institute's financial activities for the fiscal year ended June 30, 2009.

FINANCIAL HIGHLIGHTS

- The Institute's net assets decreased by \$1,270,522, or nearly 1.5%, mostly as a result of lower revenues in its general fund.
- During the current year, the Institute's total expenditures (excluding capital outlays) exceeded revenues (excluding grants for capital improvements) by \$3,456,479.
- General fund's operations resulted in a deficiency of \$2,495,110, mostly as a result of a reduction on its operating grant from the central government in the amount of \$1,680,923, when compared to the budget assigned during the fiscal year ended June 30, 2008. In addition, the central government made an additional mid-year assignment cut in the amount of \$928,000.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Institute as a whole and present a long-term view of the Institute's finances. Fund financial statements start on page 11. For governmental activities, these statements disclose how the Institute's operations were financed in the short-term as well as the amounts available for future spending. Fund financial statements also report the Institute's operations in more detail than the government-wide statements, by providing information about the Institute's most significant funds. The remaining statements provide financial information about activities for which the Institute acts as an agent for the benefit of those outside and inside of the government.

Reporting on the Institute as a whole:

Our analysis of the Institute as a whole begins on page 5. The Statement of Net Assets and the Statement of Activities include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most companies in the private sector. All of the current year's revenues and expenses are taken into account regardless of when cash was received or paid.

These two statements report the Institute's net assets and their changes. The Institute's net asset is the difference between assets and liabilities which is a way to measure the Institute's financial position. Increases or decreases in the Institute's net assets, may be interpreted as an indicator of whether the Institute's financial position has improved or deteriorated. Other non-financial factors should be considered in performing such assessment.

In the Statement of Net Assets and the Statement of Activities, the governmental activities represent the basic services provided by the following departments: administrative services, culture promotion, documental and historic patrimony conservation.

**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

Legislative awards and federal grants finance most of the Institute's operations.

Reporting on the Institute's most significant funds:

Our analysis of the Institute's major funds is on page 6. The funds financial statements begin on page 10 and provide information about the most significant funds, not the Institute as a whole. Some funds are required to be established by the laws of the Commonwealth or by requirement of Federal law.

Governmental funds - All of the Institute's basic services are reported in governmental funds, which focus on how money flows in and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental funds statements provide a detailed short-term view of the Institute's general government operations and the basic services it provides. Governmental funds information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Institute's programs.

Agency funds - The Institute has the responsibility for the transfer of funds to other entities or governmental agencies. The Institute's agency activities are reported in the separate Statement of Fiduciary Net Assets on page 14. Fiduciary activities are excluded from the Institute's financial statements because the Institute cannot use these assets to finance its operations. The Institute is responsible for ensuring that the assets reported in these funds are passed to the designated entity and that such entity uses these funds for the intended purpose established in the granting law.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009

THE INSTITUTE AS A WHOLE:

The Institute's net assets decreased from prior year by \$1,270,522, or 1.46%, as a result of lower revenues in its general fund. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or legal requirements decreased from \$2,244,507 at June 30, 2008, to \$905,816 at June 30, 2009, mostly because of the deficiency explained in page 3 in the amount to \$2,495,110, offset by the Central Government funding of the accrued interest in the amount of \$1,584,503. In addition, the Institute's long-term compensated absences decreased by \$606,598 during the fiscal year 2009.

	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 26,561,008	\$ 27,956,848
Capital assets, net	82,398,029	87,337,985
Total assets	<u>108,959,037</u>	<u>115,294,833</u>
Lines of credit and long-term liabilities	20,812,401	22,945,003
Other liabilities	2,257,894	5,190,566
Total liabilities	<u>23,070,295</u>	<u>28,135,569</u>
Net assets:		
Invested in capital assets, net of related debt	64,649,894	69,648,349
Restricted for capital projects	11,276,972	5,792,565
Restricted for specific purpose	9,056,060	9,473,843
Unrestricted	<u>905,816</u>	<u>2,244,507</u>
Total net assets	<u>\$ 85,888,742</u>	<u>\$ 87,159,264</u>

Governmental activities:

Revenues for the Institute's governmental funds (including grants for capital improvements) increased by 17% or \$3,923,311. Total expenditures (including capital outlays) increased by 3.1% or \$769,612.

<u>Functions/Programs</u>	<u>Revenues</u>		<u>Increase / (Decrease)</u>	
	<u>2009</u>	<u>2008</u>	<u>Amount</u>	<u>%</u>
Governmental activities:				
Administrative services	\$ 18,578,408	\$ 14,288,748	\$ 4,289,660	30.0%
Culture promotion	1,496,595	3,874,473	(2,377,878)	-61.4%
Documental patrimony conservation	416,928	1,898,066	(1,481,138)	-78.0%
Historic patrimony conservation	<u>6,522,084</u>	<u>3,029,417</u>	<u>3,492,667</u>	<u>115.3%</u>
Total revenues	<u>\$ 27,014,015</u>	<u>\$ 23,090,704</u>	<u>\$ 3,923,311</u>	<u>17.0%</u>



INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenditures		Increase / (Decrease)	
	2009	2008	Amount	%
Governmental activities:				
Administrative services	\$ 14,987,639	\$ 15,371,806	\$ (384,167)	-2.5%
Culture promotion	4,845,668	4,171,441	674,227	16.2%
Documental patrimony conservation	1,903,000	2,037,815	(134,815)	-6.6%
Historic patrimony conservation	3,870,876	3,256,509	614,367	18.9%
Total expenditures	\$ 25,607,183	\$ 24,837,571	\$ 769,612	3.10%

General Fund Budgetary Highlights:

The Institute's budget decreased to from \$20,664,923 for the fiscal year ended June 30, 2008, to \$18,056,000 for the fiscal year ended June 30, 2009.

THE INSTITUTE'S COMBINED FUND BALANCE:

The Institute's governmental funds (as presented in the balance sheet on page10) reported a combined fund balance of \$24,303,114, in comparison to last year's combined fund balance of \$22,766,282, representing an increase of \$1,536,832, as a result of the Institute's operations during the fiscal year.

CAPITAL ASSETS AND DEBT SERVICE:

As of June 30, 2009, the Institute had \$82,398,029 invested in capital assets net from accumulated depreciation. This amount represents a net decrease of \$4,939,956, or approximately 5.7% when compared to the fiscal year ended on June 30, 2008. Capital assets depreciation recorded during the fiscal year ended June 30, 2009 amounted to \$4,050,328.

A detail of the Institute's capital assets at June 30, 2009, follow:

	2009	2008
Land	\$ 55,205	\$ 55,205
Historical and archeological patrimony and art	6,401,495	6,396,295
Buildings	91,577,651	85,038,021
Construction in progress	1,627,795	3,542,022
Furniture, fixtures and equipment	3,325,252	2,527,799
Computers and software	1,388,398	2,575,292
Vehicles	566,774	566,774
Improvements to buildings under custody	3,322,448	7,773,666
	108,265,018	108,475,074
Less: accumulated depreciation	(25,866,989)	(21,137,089)
	\$ 82,398,029	\$ 87,337,985



**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

The Institute's capital budget for the fiscal year 2008 - 2009 called for the spending of \$5,500,000 during the current fiscal. In addition, the Institute has remaining balances on certain capital expenditure projects from previous fiscal years, for which an aggregate amount of \$38,100,000 was granted, and for which the following amounts are available to disburse:

	2009		
	Credit Granted in Prior Years	Cumulative Expenditures	Available Amount
Fortín San Gerónimo	\$ 3,010,000	\$ 404,320	\$ 2,605,680
Antiguo Asilo de Beneficiencia (headquarters of the Institute)	1,000,000	842,304	157,696
Convento Los Dominicos	2,000,000	1,897,045	102,955
Museo de Artes Populares	250,000	19,686	230,314
Casa Urrutia and Casa Blanca	400,000	39,794	360,206
Juan Ponce de León	663,000	171,622	491,378
Casa Wiechers Villaronga	150,000	150,000	-
Casa Armstrong	1,500,000	1,238,065	261,935
Centro Ceremonial Indígena	1,027,000	441,179	585,821
Archivo General de Puerto Rico	18,500,000	18,500,000	-
Teatros Matienzo and Music Hall	9,600,000	7,970,507	1,629,493
	\$ 38,100,000	\$ 31,674,522	\$ 6,425,478

Funding for these projects are mostly obtained from lines of credit granted by the Government Development Bank of Puerto Rico, and the underlying drawings shall be paid from annual budget appropriations from the "*Fondo de Mejoras Permanentes*" at the Central Government level.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES:

The indicators that follow were taken into account when adopting the General Fund budget for 2009. The original and the final amount available for appropriation in the General Funds budget for the fiscal year 2009 was \$18,984,000 and \$18,056,000, respectively, with an original budgetary reserve of \$613,274.

CONTACTING THE INSTITUTE'S FINANCIAL MANAGEMENT:

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Institute's finances and to show the Institute's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Institute of Puerto Rican Culture, Finance Department, PO Box 9024184, San Juan, Puerto Rico 00902-4184.



INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET ASSETS
JUNE 30, 2009

	<u>2009</u>
ASSETS	
CASH AND CASH EQUIVALENTS	\$ 19,943,033
CASH WITH FISCAL AGENT	4,604,250
ACCOUNTS RECEIVABLE -	
Trade, net of allowance for doubtful accounts of \$243,607	402,865
INVENTORY	1,610,860
CAPITAL ASSETS:	
Land	55,205
Museum equipment	6,401,495
Buildings and improvements	91,577,651
Construction in progress	1,627,795
Furniture, fixtures and equipment	3,325,252
Computers and software	1,388,398
Vehicles	566,774
Improvements to buildings under custody	<u>3,322,448</u>
Total capital assets	108,265,018
Accumulated depreciation and amortization	<u>(25,866,989)</u>
Capital assets, net	<u>82,398,029</u>
	<u>\$ 108,959,037</u>
LIABILITIES	
LINES OF CREDIT	\$ 17,748,135
ACCOUNTS PAYABLE:	
Trade	1,730,657
Retainage	385,927
COMPENSATED ABSENCES:	
Due within one year	141,310
Due over one year	<u>3,064,266</u>
Total liabilities	<u>23,070,295</u>
NET ASSETS	
INVESTED IN CAPITAL ASSETS	64,649,894
RESTRICTED FOR:	
Capital projects	11,276,972
Specific purposee	9,056,060
UNRESTRICTED	<u>905,816</u>
Total net assets	<u>\$ 85,888,742</u>



INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR FROM JULY 1, 2008 TO JUNE 30, 2009

<u>FUNCTIONS / PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Assets</u>
		<u>Operating Grants</u>	<u>Capital Grants</u>	
Governmental activities:				
Administrative services	\$ 14,987,639	\$ 12,055,313	\$ -	\$ (2,932,326)
Culture promotion	4,845,668	1,776,812	-	(3,068,856)
Documental patrimony	1,903,000	1,753,392	-	(149,608)
Historic patrimony	3,870,876	2,470,483	5,749,533	4,349,140
Interest on lines of credit	816,995	-	816,995	-
CHANGES IN NET ASSETS	\$ 26,424,178	\$ 18,056,000	\$ 6,566,528	\$ (1,801,650)
NET ASSETS, beginning of fiscal year				87,159,264
OTHER USES OF FUNDS				(1,270,522)
NET ASSETS, end of fiscal year				<u>\$ 85,888,742</u>



INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2009

	2009				
	Special Revenue Funds				
ASSETS	General Fund	Special Appropriation Fund	Other Governmental Fund	Capital Improvement Fund	Total Governmental Funds
CASH AND CASH EQUIVALENTS	\$ 2,123,533	\$ 5,656,321	\$ 886,207	\$ 11,276,972	\$ 19,943,033
CASH WITH FISCAL AGENT	2,373,364	(64,119)	2,295,005	-	4,604,250
ACCOUNTS RECEIVABLE - Trade, net of allowance for doubtful accounts of \$243,607	120,219	2,400	280,246	-	402,865
INVENTORY	1,610,860	-	-	-	1,610,860
DUE FROM OTHER FUNDS	123,169	-	-	-	123,169
	<u>\$ 6,351,145</u>	<u>\$ 5,594,602</u>	<u>\$ 3,461,458</u>	<u>\$ 11,276,972</u>	<u>\$ 26,684,177</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable trade	\$ 1,021,997	\$ 169,558	\$ 263,120	\$ 275,982	\$ 1,730,657
Retainage	59,905	-	-	326,022	385,927
Accrued vacation and sickleave	141,310	-	-	-	141,310
Due to other funds	-	-	107,896	15,273	123,169
Total liabilities	<u>1,223,212</u>	<u>169,558</u>	<u>371,016</u>	<u>617,277</u>	<u>2,381,063</u>
FUND BALANCES:					
Reserved for:					
Specific purposes	-	5,425,044	3,090,442	-	8,515,486
Capital expenditures	-	-	-	10,659,695	10,659,695
Unreserved	5,127,933	-	-	-	5,127,933
Total fund balances	<u>5,127,933</u>	<u>5,425,044</u>	<u>3,090,442</u>	<u>10,659,695</u>	<u>24,303,114</u>
	<u>\$ 6,351,145</u>	<u>\$ 5,594,602</u>	<u>\$ 3,461,458</u>	<u>\$ 11,276,972</u>	<u>\$ 26,684,177</u>



**INSTITUTE OF PUERTO RICAN CULTURE
 (A Component Unit of the Commonwealth of Puerto Rico)
 RECONCILIATION OF THE GOVERNMENTAL FUNDS
 BALANCE SHEET TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2009**

	<u>2009</u>
TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 24,303,114
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet	82,398,029
Lines of credit used to finance capital assets do not require financial resources and, therefore, are not reported in the governmental funds balance sheet	(17,748,135)
Compensated absences not liquidated immediately with current financial resources are not reported in the governmental funds balance sheet	<u>(3,064,266)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 85,888,742</u>

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR FROM JULY 1, 2008 TO JUNE 30, 2009

	2009				Total Governmental Funds
	General Fund	Special Revenues Funds			
		Special Appropriation Fund	Other Governmental Funds	Capital Improvement Fund	
REVENUES	\$ 18,580,604	\$ 2,060,535	\$ 623,343	\$ 5,749,533	\$ 27,014,015
EXPENDITURES:					
Administrative Services	14,053,158	116,016	818,465	-	14,987,639
Culture promotion:					
Plastic Arts	536,905	837,977	-	-	1,374,882
Popular Arts	266,397	98,830	-	-	365,227
Cultural Centers	1,039,355	-	-	-	1,039,355
Music	550,813	370,986	37,172	-	958,971
Theater	244,789	862,444	-	-	1,107,233
	<u>2,638,259</u>	<u>2,170,237</u>	<u>37,172</u>	<u>-</u>	<u>4,845,668</u>
Documental Patrimony Conservation:					
General Archives of PR	705,104	121,930	159,426	-	986,460
Publications	470,108	11,782	-	-	481,890
General Library	418,961	-	15,689	-	434,650
	<u>1,594,173</u>	<u>133,712</u>	<u>175,115</u>	<u>-</u>	<u>1,903,000</u>
Historic Patrimony Conservation:					
Historic Patrimony	711,829	-	-	-	711,829
Archeology	551,850	-	-	-	551,850
Museums and Parks	1,526,445	147,904	46,626	-	1,720,975
Capital Outlays	-	-	-	886,222	886,222
	<u>2,790,124</u>	<u>147,904</u>	<u>46,626</u>	<u>886,222</u>	<u>3,870,876</u>
Total expenditures	<u>21,075,714</u>	<u>2,567,869</u>	<u>1,077,378</u>	<u>886,222</u>	<u>25,607,183</u>
EXCESS (DEFFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (2,495,110)	\$ (507,334)	\$ (454,035)	\$ 4,863,311	\$ 1,406,832
OTHER FINANCING SOURCES (USES), INCLUDING TRANSFERS:					
Other sources of funds to pay current interest expense	-	-	-	816,995	816,995
Other sources of funds to pay accrued interest	-	-	-	1,584,503	1,584,503
Other use to pay current interest expense	-	-	-	(816,995)	(816,995)
Other use to pay accrued interest	-	-	-	(1,584,503)	(1,584,503)
Transfers from other funds	123,169	-	3,012	3,819	130,000
Total other financing sources	<u>123,169</u>	<u>-</u>	<u>3,012</u>	<u>3,819</u>	<u>130,000</u>
Net change in fund balance	(2,371,941)	(507,334)	(451,023)	4,867,130	1,536,832
FUND BALANCES, beginning of fiscal year	7,499,874	5,932,378	3,541,465	5,792,565	22,766,282
FUND BALANCES, end of fiscal year	\$ 5,127,933	\$ 5,425,044	\$ 3,090,442	\$ 10,659,695	\$ 24,303,114



**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS WITH THE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR FROM JULY 1, 2008 TO JUNE 30, 2009**

	<u>2009</u>
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 1,536,832
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives	886,222
The advances from lines of credit provide current financial resources to governmental funds, whereas the corresponding line of credit liability is non-current	(58,499)
Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds	(115,877)
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but do not require the use of current financial resources. Therefore, depreciation expense on capital assets is not reported as expenditure in the governmental funds	<u>(4,050,328)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (1,801,650)</u>

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
JUNE 30, 2009

	<u>2009</u>
	<u>Agency Fund</u>
ASSETS	
CASH AND CASH EQUIVALENTS	\$ 3,698,286
CASH WITH FISCAL AGENT	107,977
ACCOUNT RECEIVABLE	<u>35,435</u>
	<u>\$ 3,841,698</u>
LIABILITIES	
ACCOUNTS PAYABLE	<u>\$ 3,841,698</u>



INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – BUDGET AND ACTUAL GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR FROM JULY 1, 2008 TO JUNE 30, 2009

	GENERAL FUND			Variance with final budget positive (negative)
	Budgeted amounts		Actual amounts	
	Original	Final		
REVENUES	\$ 18,984,000	\$ 18,056,000	\$ 18,580,604	\$ 524,604
EXPENDITURES:				
Administration	12,983,313	12,055,313	14,053,158	(1,997,845)
Culture promotion	1,776,812	1,776,812	2,638,259	(861,447)
Documentary patrimony conservation	1,753,392	1,753,392	1,594,173	159,219
Historic patrimony conservation	2,470,483	2,470,483	2,790,124	(319,641)
Total expenditures	<u>18,984,000</u>	<u>18,056,000</u>	<u>21,075,714</u>	<u>(3,019,714)</u>
EXCESS OF EXPENDITURES OVER REVENUES	-	-	(2,495,110)	(2,495,110)
OTHER FINANCING SOURCES - Transfer from other funds	-	-	123,169	123,169
NET CHANGE IN FUND BALANCE	-	-	(2,371,941)	(2,371,941)
FUND BALANCE, beginning of fiscal year	<u>780,625</u>	<u>780,625</u>	<u>7,499,874</u>	<u>7,499,874</u>
FUND BALANCE, ending of fiscal year	<u>\$ 780,625</u>	<u>\$ 780,625</u>	<u>\$ 5,127,933</u>	<u>\$ 5,127,933</u>



INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

1. NATURE OF THE INSTITUTE

Organization - The Institute of Puerto Rican Culture (the Institute) is an official, autonomous and corporate entity of the Commonwealth of Puerto Rico (a component unit), created by law No. 89 of June 21, 1955. The Institute is the organization engaged in the attainment, promotion, enrichment and divulging of the Puerto Rican cultural values.

Financial Independence - The Institute is responsible for its debts and has the right to its surplus. No governmental agency receives the benefit nor can impose financial restraints on the Institute.

Board of Directors - The Board of Directors is appointed by the Governor of the Commonwealth of Puerto Rico, with the counsel and approval of the Senate of Puerto Rico. The Board has the power to make decisions and is responsible for them.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

The basic financial statements utilize an *economic resources* measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery) and financial position. All assets and liabilities (whether current or non-current, financial or non-financial) associated with their activities are reported. Fund balance is classified as net assets. Legislative grants and similar items are recognized as revenue as soon as all eligible requirements imposed by the provider have been met.

Financial statements are reported using the accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected 60 days after the end of the current fiscal year. Expenditures, generally, are recorded when a liability is incurred, under the accrual accounting method. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Institute is organized on the basis of funds, each of which is considered to be a separate accounting entity. The transactions of each fund are summarized by providing a separate set of self-balancing accounts which include their revenues and expenditures. An emphasis is placed on major funds. A fund is considered major if it meets both of the following criteria:

Ten Percent Criterion - an individual governmental fund reports at least 10% of any of the following: (a) total governmental fund assets, (b) total governmental fund liabilities, (c) total governmental fund revenues, or (c) total governmental fund expenditures.

Five Percent Criterion - an individual governmental fund reports at least 5% of the total for both governmental and enterprise funds of any one of the items for which the 10% criterion is met.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

Governmental funds are those through which the general functions of the Institute are financed. The acquisition, use and balance of the Institute expendable financial resources (except those accounted for in the Fiduciary funds) are accounted for through the governmental funds.

The following are the Institute's major governmental funds:

General fund - The General fund is the Institute's primary operating fund. It accounts for all financial resources not accounted for in other funds. All funds received from the Government that is not restricted by law or contractual agreement is recorded in this fund. Also, it accounts for the Government funds available and not used in prior years by the budgetary fund.

Capital outlays in the General Fund and Capital Improvements Funds are recorded as expenditures of those funds at the time of purchase.

However, to provide the details of capital assets for the primary government, the Institute segregates land, historic buildings, improvements, works of art and equipment stated at cost in a note to financial statements. Other donated assets are stated at their market value at the date those assets were donated. Cost of maintenance and repairs that do not improve or extend the life of the respective assets are expensed as incurred. Cost of restorations and improvements are capitalized for this purpose.

Special revenue funds - The special revenue funds are composed of: (a) the special appropriations fund and (b) the capital improvements fund.

- **Special appropriations fund** - The Special Appropriations fund accounts for the proceeds of special resolutions of the Commonwealth of Puerto Rico Government and private entities (other than assessments or capital projects) that are legally restricted to expenditures for specified purposes.
- **Capital improvements fund** - This fund accounts for financial resources to be used for the acquisition or construction of major capital facilities. It includes the capital improvements fund used to account for the restoration and improvements to historic monuments and buildings. They are financed from resolutions of the Government of the Commonwealth of Puerto Rico and the corresponding interest earned from the corresponding bank accounts.

Endowment fund - The Endowment fund accounts for federal block grants awarded by the National Endowment of the Arts.

The non-major funds are presented in one column in the financial statements and include the following:

National funds - This fund is used to account for the proceeds of joint resolutions of the Commonwealth of Puerto Rico Government that are donated to qualified individuals and entities that are engaged in the promotion of theatrical, musical and general arts in Puerto Rico.

Fiduciary fund type - Fiduciary fund type is used to report assets held by the Institute as an agent for individuals, private organizations, other governmental entities and/or other funds. The Institute's Fiduciary fund is also named as the *agency fund*. The Agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

Total Governmental Funds column - The total columns on the statements are provided only to facilitate additional analysis. Inter-fund transactions have not been eliminated; therefore, total columns are not comparable to a consolidation.

Use of Estimates in the Preparation of Financial Statements - The preparation of financial statements in conformity with accounting principles generally accepted of the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk - The Institute maintains cash on deposit with higher rated financial institutions and with the Puerto Rico Treasury Department. The laws of the Commonwealth of Puerto Rico require public funds deposited in commercial banks to be collateralized by the bank when funds exceed the amount insured by the Federal Government. The securities pledged by the banks as collateral for those deposits are under the custody of the Secretary of the Treasury in the name of the Commonwealth of Puerto Rico. Deposits with the Governmental Development Bank of Puerto Rico are exempt of the collateralization requirement and represent a credit risk of custody, because in case of bankruptcy of the bank the entity will not recover its deposits.

Cash and Cash Equivalents - Cash and cash equivalents include petty cash, checking and other instruments with original maturities of less than three months.

Cash with Fiscal Agent - The Institute's budgetary assignments from the Central Government are under the custody of the Puerto Rico Treasury Department ("PRTD"). The PRTD processes the Institute's payroll and such payments are deducted from the budgetary assignments. Money transfers for budgetary assignments other than payroll may be requested by the Institute at any time during the normal course of operations, subject to the Central Government's budgetary management procedures. At June 30, 2009, the Institute maintained \$4,604,250 under the PRTD's custody.

Inventory - Inventory is stated at cost based on the first-in, first-out method and reported at cost when individual inventory items are used.

Capital Assets - Capital assets are stated at historical cost when purchased or at estimated fair market value when donated. Costs of repairs and maintenance, which do not increase or extend the life of the respective assets are expensed as incurred. Assets which cost or estimated fair value is stated over \$200 are capitalized when purchased or received as a donation. The historic buildings are at the value established when acquired or received and buildings improvements are capitalized as buildings are constructed or repaired. The artwork and historic collections are partially included in the financial statements of the Institute, but there are some collections for which no valuation was performed, therefore, were not included. The cost or donation amount was assigned to those included at the time of the acquisition.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

Major outlays for capital assets, renewals, and betterments are capitalized. In accordance to the presentation of a component unit, capital assets (depreciated for the purpose of presentation by the primary government) are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Category</u>	<u>Years</u>
Buildings	50
Leasehold improvements	20
Furniture and fixtures	10
Vehicles	5
Computer equipment	3

Compensated Absences - It is the Institute's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The excess over 60 days of vacations and over 90 days of sick leave benefits are paid to the employee. A liability is reported only if the amount is due, for example, as a result of employee resignation and retirement.

Budgetary Data - The budget is prepared following the modified accrual basis of accounting. The actual results of operations, presented in the Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual, is in conformity with the budgetary accounting of the Institute for a better comparison with the budget information.

Recent Accounting Pronouncement -

Subsequent Events - In May 2009, the FASB issued authoritative guidance for the accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance does not apply to subsequent events or transactions that are within the scope of other applicable GAAP that provide different guidance on the accounting treatment for subsequent events or transactions. This guidance is effective for interim and annual periods ending after June 15, 2009, and is required to be applied prospectively.

For purposes of these financial statements, subsequent events have been evaluated through August 25, 2010, which is the date the financial statements were available to be issued.

Other Recent Accounting Pronouncements - During the year ended June 30, 2009, the FASB and other standard setting bodies issued other accounting standard updates that were not relevant to the Institute's operations.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

3. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Changes in the allowance for doubtful accounts during the fiscal year ended June 30, 2009, are as follows:

	<u>2009</u>
Allowance for doubtful accounts, beginning of period	\$ 48,910
Provision for doubtful accounts	186,709
Other adjustment	<u>7,988</u>
Allowance for doubtful accounts, end of period	<u>243,607</u>

4. CAPITAL ASSETS

The Institute's capital assets at June 30, 2009 were as follow:

<u>Capital Assets</u>	<u>2009</u>			<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	
Non-depreciable assets:				
Land	\$ 55,205	\$ -	\$ -	\$ 55,205
Historical and archeological patrimony and works of art	6,396,295	5,200	-	6,401,495
Construction in progress	<u>3,542,022</u>	<u>1,671,999</u>	<u>(3,586,226)</u>	<u>1,627,795</u>
	<u>9,993,522</u>	<u>1,677,199</u>	<u>(3,586,226)</u>	<u>8,084,495</u>
Depreciable assets:				
Buildings	85,038,021	6,539,630	-	91,577,651
Building improvements	7,773,666	23,285	(4,474,503)	3,322,448
Furniture, fixtures and equipment	2,527,799	949,778	(152,325)	3,325,252
Computers and software	2,575,292	73,650	(1,260,544)	1,388,398
Vehicles	<u>566,774</u>	<u>-</u>	<u>-</u>	<u>566,774</u>
	<u>98,481,552</u>	<u>7,586,343</u>	<u>(5,887,372)</u>	<u>100,180,523</u>
Less accumulated depreciation:				
Buildings	(16,315,444)	(5,306,863)	-	(21,622,307)
Furniture, fixtures and equipment	(1,897,866)	(668,721)	136,398	(2,430,189)
Computers and software	(2,373,606)	-	1,187,212	(1,186,394)
Vehicles	<u>(550,173)</u>	<u>(77,926)</u>	<u>-</u>	<u>(628,099)</u>
	<u>(21,137,089)</u>	<u>(6,053,510)</u>	<u>1,323,610</u>	<u>(25,866,989)</u>
Net depreciable assets	<u>77,344,463</u>	<u>1,532,833</u>	<u>(4,563,762)</u>	<u>74,313,534</u>
Capital assets, net	<u>\$ 87,337,985</u>	<u>\$ 3,210,032</u>	<u>\$ (8,149,988)</u>	<u>\$ 82,398,029</u>



INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

Depreciation expense was charged to functions/programs as follows:

<u>Program</u>	<u>Amount</u>
Administratives services	\$ 2,511,204
Plastic arts	121,510
Popular arts	81,006
Cultural Centers	162,014
Musics	162,014
Theather	162,014
General Archieves	162,014
Publications	81,006
General Library	81,006
Historic Patrimony	121,510
Archeology	81,006
Museums and Parks	324,025
	<hr/>
Total depreciation expense	\$ 4,050,328

The Institute has active construction projects as of June 30, 2009. The total commitments for ongoing capital projects are composed of the following:

<u>Building</u>	<u>Amount</u>
Fortin San Geronimo	\$ 2,605,680
Antiguo Asilo de Beneficiencia (main facilities of the Institute)	157,696
Convento Los Dominicos	102,955
Museo de Artes Populares	230,314
Casa Urrutia, Casa Blanca y complejo Museo	360,206
Juan Ponce de Leon	491,378
Casa Armstrong	261,935
Centro Ceremonial Indigena	585,821
Teatros Matienzo y Music Hall	1,629,493
	<hr/>
Total	\$ 6,425,478

These commitments will be funded by advances from the credit facilities disclosed in Note 5.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

5. LINES OF CREDIT

The Institute has three non-revolving lines of credit agreements to finance the commitments disclosed in Note 4. These credit facilities were granted by the Puerto Rico Government Development Bank. The Institute may borrow up to \$10,000,000, \$9,000,000 and \$17,000,000, respectively at a 4.24% annual rate. At June 30, 2009, lines of credit consisted of the following individual legislative resolutions:

	2009			
	Beginning Balance	Additions	Retirements	Ending Balance
Resolution #718, dated August 17, 2002, for the amount of \$10,000,000 due in annual installments until September 30, 2008	\$ 2,295,139	\$ 40,489	\$ -	\$ 2,335,628
Resolution #1780, dated December 28, 2003, for the amount of \$9,000,000 due in annual installments until December 31, 2007	924,750	-	-	924,750
Resolution #2112, dated September 30, 2004, for the amount of \$17,100,000 due in annual installments until September 30, 2012	14,469,747	18,010	-	14,487,757
Total lines of credit	<u>\$ 17,689,636</u>	<u>\$ 58,499</u>	<u>\$ -</u>	<u>\$ 17,748,135</u>

The Institute also has an interagency agreement with the Infrastructure Financing Authority of Puerto Rico to rehabilitate the Music Hall Theater by means of financing with a transfer of funds for the amount of \$2,000,000, from July 15, 2004 until the completion of the project. Cumulative drawings on such facility at June 30, 2009 amounted to \$439,666.

6. COMPENSATED ABSENCES

Compensated absences as of June 30, 2009 were as follow:

	2009				
	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Vacations and licenses	\$ 1,788,658	\$ -	\$ (519,607)	\$ 1,269,051	\$ 31,640
Sick leave benefits	2,149,108	-	(212,583)	1,936,525	109,670
	<u>\$ 3,937,766</u>	<u>\$ -</u>	<u>\$ (732,190)</u>	<u>\$ 3,205,576</u>	<u>\$ 141,310</u>

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

7. PENSION PLAN

The Employee's Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS) is a cost-sharing multi-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Institute under age 55 at the date of employment become members of the System as a condition for their employment.

The System provides retirement, death and disability benefits pursuant to Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited services. Benefits vest after ten years of plan participation. Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years for creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit payable monthly for life.

The amount of the annuity shall be 1.5% of the average compensation multiplied by the number-of-years of creditable service up to twenty years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case will the annuity be less than \$200 per month. For those participant employees after March 31, 1990, the amount of the annuity is 1.5% of the compensation multiplied by the number of years for credited services. The annuity should not be less than \$2,400 in any case.

Participants who have completed at least thirty years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions. On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, was enacted with the purpose of establishing a new pension program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, elected either to stay in the defined benefit plan or transfer to the new program. Persons joining on or after January 1, 2000, were only allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the turn of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

The employer's contribution (9.275% of the employee's salary) will be used to fund the deficiency of the defined benefit plan. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

Commonwealth legislation requires employees to contribute 5.775% for the first \$6,600 of their annual gross salary and 8.275% for the salary in excess of \$6,600, for employees hired on or before April 1, 1990. For employees hired on or after April 1, 1990 the required contribution is 8.275% of gross salary. The Institute's contribution is 9.275% of gross salary. Total payroll subjected to retirement contribution amounted to \$9,265,828, \$9,447,464 and \$9,484,366 for the years ended June 30, 2009, 2008 and 2007, respectively. Those amounts are the compensation paid by the Corporation to active employees covered by the System, which is the basis for the contribution. The pension expenses incurred by the Institute for the years ended June 30, 2009, 2008 and 2007 amounted to \$861,745, \$861,965 and \$1,724,063, respectively.

Act number 1 of February 16, 1990 made certain amendments applicable to new participants joining the System effective on April 1, 1990. Changes mainly consisted of an increase of the retirement age to 65 years, the elimination of the Merit Annuity and a reduction of the percentage for disability and death benefits.

The amount of total pension benefit obligation is based on standardized measurement established by generally accepted accounting principles that, with some exceptions, must be used by a public employee retirement system. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effects of projected salary increases. The significant actuarial assumptions used to determine the standardized measurement of the pension benefits obligation as of June 30, 2009 are summarized below:

- | | |
|---|---|
| • Investments Rate of Return | 7.5% a year |
| • Payroll growth | 3.0% per year |
| • Mortality | RP 2000 Mortality Rates |
| • Disability | Adjusted 1987 Commissioners Group Disability Table |
| • Retirement age | Graded scale of retirement ages |
| • Proportion of participants with spouses | 70% of participants assumed to be married, with wives assumed to be four years younger than husbands. |
| • Cost-of-living adjustment | 3% every third year |

The financial statements and required supplementary information for the pension plan are available at the administration office of the Employees' Retirement System of the Government of Puerto Rico, P.O. Box 42003 Minillas, San Juan, Puerto Rico 00940.

8. CONTINGENCIES

The Institute is a party to various legal claims resulting from its operations. As a component unit of the Commonwealth of Puerto Rico, all legal claims are handled by the Department of Justice and any liability resulting from these claims is covered by a separate fund established by the Commonwealth of Puerto Rico, if funds are not specifically available at the Institute for this purpose.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

As result of consultations with its in-house and external legal counsels, management believes that the ultimate outcome of any pending litigation will not have a significant impact to the accompanying financial statements.

9. SUBSEQUENT EVENTS

The Central Government enacted the Law # 7 (the "Law") of March 9, 2009, which declares a state of fiscal emergency and establishes a stabilization plan for all governmental entities of the Commonwealth, in an effort to manage the Central Government's structural operating deficit. Pursuant to the provision of the law, a separation plan applicable to certain employees was implemented in certain agencies, based on specific criteria established by the Law.

The separation plan applicable to the Institute was implemented during the period from May 2009 through June 2010. Severance payments related to the implementation were covered by separate budgetary assignments from the Central Government during such period. The Institute's projected payroll cost reduction over the trailing twelve months after full implementation ranges from \$3.5 million to \$4.0 million. The Law provides for an appellate process that may be followed by employees after separation, if certain requirements are met. As of the date of issuance of the financial statements, the appeals filed are in its evaluation stage and the monetary impact, if any, will be covered by separate budgetary assignments from the Central Government for those employees that prevail, if any.

During the fiscal year ended on June 30, 2010, the Central Government paid approximately \$18,005,000 of the then outstanding balance on the Institute's lines of credit with the Puerto Rico Development Bank, which paid-off the obligations disclosed in Note 5, plus some advances received thereafter. The Central Government also paid accrued interest as of June 30, 2010, amounting to approximately \$1,112,000. These transactions will be disclosed as other sources and other uses of funds in the fiscal year then ended.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
National Endowment for the Arts :			
Promotion of the Arts - State and Regional Programs	45.025		
Partnership agreements		06-6100-2027	\$ 35,692
Partnership agreements		07-6100-2035	184,090
Partnership agreements		08-6100-2043	<u>347,144</u>
			<u>\$ 566,926</u>

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures of all the federal assisted programs of the Institute for the year ended June 30, 2009. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*.

2. GRANTS AWARDS

The Institute received grants for the development of the arts and culture of Puerto Rico from the National Endowment for the Arts that sponsor the arts and the artists in the states and U.S. territories.

3. ACCOUNTING BASIS

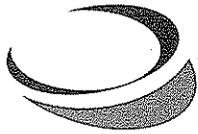
The schedule was prepared following the modified accrual basis of accounting, which is further explained in Note 1 of the Financial Statements.

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying Schedule of Federal Financial Assistance are included in the Statements of Revenues, Expenditures and Changes in Fund Balances.

5. SUB-RECIPIENTS

The Institute provided federal awards to sub-recipients amounting \$196,738 during the year ended June 30, 2009.



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

To the Board of Directors of
The Institute of Puerto Rican Culture:

We have audited the financial statements of the Institute of Puerto Rican Culture (the Institute) as of and for the year ended June 30, 2009, and have issued our report thereon dated August 25, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Institute's internal control over financial reporting as a basis for designing our audit 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 Institute's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not design to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in item 2009-02 in the accompanying schedule of findings and questioned costs to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance. We consider the deficiencies described in items 2009-01, 2009-03 to 2009-05 in the accompanying schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as items 2009-06 to 2009-08.

We noted certain matters that we reported to management of the Institute in a separate letter dated October 27, 2010.

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

This report is intended solely for the information and use of the board of directors, management, and federal awarding agency and is not intended to be and should not be used by anyone other than these specified parties.

Scherrer Hernandez & Co.

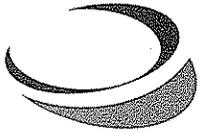
San Juan, Puerto Rico

October 27, 2010

Certified Public Accountants
(of Puerto Rico)

License No. 53 expires December 1, 2012
Stamp 2511511 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report





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

To the Board of Directors of
The Institute of Puerto Rican Culture:

Compliance

We have audited the compliance of the **Institute of Puerto Rican Culture** (the Institute) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. The Institute's major federal program is 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 the major federal program is the responsibility of the Institute's management. Our responsibility is to express an opinion on the Institute'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 Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Institute's compliance with those requirements.

As described in items 2009-06 and 2009-08 in the accompanying schedule of findings and questioned costs, the Institute did not comply with the requirements regarding Sub-recipient Monitoring, Procurement and Suspension and Debarment and Reporting requirements as required by the National Endowment for the Arts major federal program. Compliance with such requirements is necessary, in our opinion, for the Institute to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Institute complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the Institute 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 Institute'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, 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 Institute's internal control over compliance.

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2009-06 to 2009-08 to be significant deficiencies.

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

This report is intended solely for the information and use of the audit committee, management, and federal awarding agency and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Scherrer Hernandez & Co.

San Juan, Puerto Rico

October 27, 2010

Certified Public Accountants
(of Puerto Rico)

License No. 53 expires December 1, 2012
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affixed to the file copy of this report



INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

I. SUMMARY OF AUDITORS' RESULTS

i. Financial Statements:

Type of auditors' report issued:

Qualified

Internal control over financial reporting:

- Material weakness/(es) identified? Yes
- Significant deficiencies identified that are not considered to be material weakness/(ess)? Yes

Noncompliance material to financial statements noted? Yes

ii. Financial awards:

Internal control over major programs:

- Material weakness/(es) identified? No
- Significant deficiencies identified that are not considered to be material weakness/(es)? Yes

Type of auditors' report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes

iii. Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Programs or Cluster</u>
45.025	Promotion of the Arts – State and Regional Programs
Dollar threshold used to distinguish Between Type A and Type B programs:	\$300,000
Auditee qualified as a low-risk auditee?	No



**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

II. FINANCIAL STATEMENTS FINDINGS

Refer to 2009-01 and 2009-05 included in the Institute's Schedule of Findings and Questioned Costs.

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Refer to 2009-06 and 2009-10 included in the Institute's Schedule of Findings and Questioned Costs.



**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

Finding 2009-01 (Significant Deficiency)

Condition:

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

Criteria:

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

Cause:

The Institute experienced several delays in the closing of the accounting books and records as of and for the fiscal year ended June 30, 2009. Therefore, auditing procedures had to be postponed, causing non-compliance with the completion and submission of the data collection form and of the Single Audit reporting package, within the timeframe required by OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations" Subpart C – Auditees - .320 Report Submission Section.

Effect:

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

Amount of questioned cost:

None.

Recommendation:

The Institute has to close its books within a reasonable timeframe in order to comply with the data collection form and reporting package filing timeframe as required by OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations" Subpart C – Auditees - .320 Report Submission Section.

Management response:

Contrary to previous years, as discussed in our Management Response to Finding 2009-02, the Institute will assign to the Director of Finance full responsibility on the yearly closing of the Institute's books and reporting to the corresponding agencies on time. This responsibility includes the submission of the data collection form and the respective reporting package.

**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

Finding 2009-02 (Concurring Finding) (Material Weakness)

Condition:

Our evaluation of accounting records and internal controls revealed the following situations:

- 1) There is no formal monthly closing procedure. Book closings are not timely performed at year-end. Closing of accounting book for the year ended June 30, 2009 was completed in August 2010. This time delay is not commensurate with a sound management financial oversight practice.
- 2) Accounts receivable, accounts payable and capital assets subsidiaries are not reconciled on a monthly basis against their corresponding General Ledger accounts.
- 3) There is no management review of period end closing accounting information.
- 4) Construction projects, equipment acquisitions and retention percentage transactions were not analyzed neither reconciled to the accounting system.
- 5) Internal controls deficient procedures over certain accounting functions.
- 6) The Institute is not using Encumbrances Accounting even though the current accounting system has a module for this purpose.
- 7) Lack of a formal written policies and procedures related to the evaluation of the allowance for doubtful accounts.
- 8) External financing, such as GDB line of credit and "AFF" are not reconciled with counterparty on a monthly basis.

Criteria:

The Institute has maintained its financial information in an accounting software that has not been fully deployed and integrated at the optimum level commensurate with needs of the Institute. Also, certain modules such as, property and equipment, budget management, encumbrances, purchases, among others, have not been fully integrated to the General Ledger in the required level of automatation of the full accounting cycle.

Cause:

The situation has caused delays in the analysis of financial information and the accounting books and records do not provided the necessary level of reasonable assurance that all transactions and balances are properly and timely recorded in the corresponding period.



INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

Effect:

The Institute accounting department could not issue accurate and timely interim financial statements to the Institute management and Board of Director, so they can make adequately informed administrative decisions.

Amount of questioned cost:

None.

Recommendation:

The institute should improve the accounting closing procedures and the utilization of its accounting system in order to provide reasonable assurance that all transactions and balances are properly and accurately recorded and reconciled within a reasonable period of time.

Management response:

The Institute concurred with the recommendation. The Finance and Accounting Department needs to establish specific closing procedures and monthly standard reports. The purpose of these reports will be to inform the Executive Director and the Board of Directors about the performance of the Institute during the year.

Accounting software is an important part in order to accomplish this task. We agree that it has not been fully integrated. The Institute is in the process of signing an agreement, with a Consultant, depending on the authorization required by Public Law 7, 2010, in order to receive support and training regarding the accounting software. The Institute will also receive the professional services of a System Consultant in order to review and establish new processes that will maximize the effectiveness and productivity of the Institute workflow.

The designation of a Finance Director to run the monthly closing and to be in charge of this important assignment is in our immediate plans. It is important to mention that the Institute underwent significant impact by the Law #7 and had limited staffing in our Finance and Accounting Department. We have assigned Administrative personnel from other departments in order to give support to the Finance and Accounting department, especially in the Accounts Payable unit that is very important for the Institute.



INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

Finding 2009-03 (Concurring Finding) (Significant Deficiency)

Condition:

The accounting manuals were not updated considering the changes made with the implementation of the governmental accounting system.

Criteria:

The Institute accounting manuals are the policies and procedures established and approved by the Board of Directors to establish the internal controls and maintain written procedures over the accounting process.

Cause:

The lack of priority of management to request that accounting manuals and procedures to be updated.

Effect:

Misunderstanding of policies and procedures and weak internal controls which prevent a proper supervision due to the lack of proper accounting manuals and procedures which provide guidance and authorization for well informed decisions.

Amount of questioned cost:

None.

Recommendation:

The Institute should update the accounting manuals in accordance with new procedures performed applicable to the new governmental accounting system to prevent internal controls failures. Also, to maintain written policies and procedures as approved by the Board of Directors.

Management response:

As discussed in Finding 2009-02, the Institute will use the services of a System Consultant in order to re-design the existing processes and procedures. The Institute will establish and issue a new Accounting Manual that will be interfaced with the Accounting Software preventing internal control weaknesses.

**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

Finding 2009-04 (Concurring Finding) (Significant Deficiency)

Condition:

The fair value of buildings, art crafts and works of art donated to the Institute were not appraised as required by the government accounting standards.

Criteria:

As per the "Governmental Accounting Standard Board" - GASB Statement No. 34, when a governmental unit receives a donation of capital assets it must be recorded in the government-wide financial statements at fair value on date of donation.

Cause:

Capital assets were not appraised by a qualified professional expert because the Institute does not have necessary funds to pay for these services.

Effect:

This represents an uncertainty about the possible effects in the amount of dollars not recorded for financial statements purpose and the possible under valuation of the capital assets. As a result of this situation, certain assets are not fully covered by the insurance policy.

Amount of questioned cost:

None.

Recommendation:

The Institute should contract the services of a licensed appraiser so that all donated assets in possession of the Intitute as of June 30, 2009 are properly valued and recorded in the General Ledger.

Management response:

The Institute will refer this recommendation to the Board of Directors and propose the immediate action of hiring a licensed appraiser to do the appraisal of the assets. The Audit Committee inside the Board of Directors will follow up on these recommendations and designate an internal project manager that will provide a timeline with specific dates of completion.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

Finding 2009-05 (Concurring Finding) (Significant Deficiency)

Condition:

The Institute send the request of funds one or twice during the year, causing delays and strains in the cash flows of the entity.

Criteria:

The NEA in the Documentation Requirements for Grantors on Cost Reimbursements in the General Guidance Section stated that under the cost reimbursement method of funding, the grantee is required to finance its operations with its own working capital with payments being made to reimburse the grantee for actual cash disbursements supported by adequate documentation.

Cause:

Lack of priority from management to request the reimbursement of funds as soon as the matching cost is met by the Institute.

Effect:

This causes the Institute to have cash flow deficiencies due to the unreasonable time (2 years) it takes by the Institute's management personnel to complete the required steps to request the reimbursement of funds from the federal agency (NEA).

Amount of questioned cost:

None.

Recommendation:

We recommended the Institute's management personnel to process and request the reimbursement of funds within a reasonable time. This will result in the improvement of the Institute cash flows.

Management response:

The Institute concurred with the recommendation. The Director of Finance will designate an alternate person to work with this task during the year. This designation will improve cash flow and compliance with Federal Agencies as well.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

Finding 2009-06 (Concurring Finding) (Significant Deficiency)

<i>Federal Program</i>	National Endowments for the Arts - Promotion of the Arts – State and Regional Programs (45.025)
<i>Requirement</i>	Compliance and Internal Control
<i>Noncompliance</i>	Sub-Recipient Monitoring Compliance Requirement

Condition:

During our auditing procedures to ascertain proper monitoring of sub-grantees we noted the following situations:

- 1) We noted in one case that the Sub recipient submit a total of 16 tickets to the Institute for site visit of the event, but personnel of the Institute did not use the tickets to perform the site visit.
- 2) The Institute did not evaluate three projects after the program was completed.

Criteria:

As per OMB Circular A-110 ____ .51 Monitoring and Reporting program performance, recipients are responsible for managing and monitoring each project, program, sub-award, function or activity supported by the award. Also, federal awarding agency may make site visits as needed.

In addition, as per required by the contract and “Guía para el Desarrollo de Proyectos de Artistas y Entidades Culturales” when a program is completed the Institute should contract the services of an external professional evaluator to evaluate the work performed by the sub-grantee. The sub-grantee must certificate and indicate the results of the external professional evaluator visit.

Cause:

The Institute do not performed the required monitoring procedures to several Sub-recipients to ascertain funds are used properly and as specified by the program contract agreements.

Effect:

Non-compliance with the Circular A-110 ____ .51 Monitoring and reporting program performance and with “Guía para el Desarrollo de Proyectos de Artistas y Entidades Culturales”.

Amount of questioned cost:

None.



**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

Recommendation:

The Institute should include in its policies and procedures manual a sub-recipient monitoring policy to ascertain that Sub-recipients comply with the following requirements:

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

Management response:

We understand proper monitoring was conducted. Drafting a sub-recipient monitoring policy may further strengthen the process by documenting procedures such as:

- a. Reporting - Common Rule is that a final report is required, which was met. Quarterly or semi-annual reports may be requested, if deemed necessary. A mid-period progress report may be requested, contingent on the contract signature date relative to the end of the period of support.
- b. Site visits –may be conducted as needed to a sample of sub-recipients.
- c. Regular Contact – regular contact with sub-recipients will continue (see above). Additional efforts will be made to document telephone contact and print e-mail follow-up.

External evaluations, though recommended, are not mandated by the NEA. Recognizing the value of external evaluation for project documentation of best practices, among other benefits, the ICP allocated a portion of the award to evaluation, contingent on contract formalization. By March 2009, several subgrantees' contracts were still pending (from November 2008) which affected project delivery schedules and the ability to secure project evaluation within the period of support. The ICP will continue to recommend external evaluations with the following amendment: will remove external evaluation from ICP's contractual obligations and require the subgrantee to contract an evaluator, recommended by the ICP. The evaluation fee will be included as part of the sub-award.



INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

Finding 2009-07 (Significant Deficiency)

<i>Federal Program</i>	National Endowments for the Arts - Promotion of the Arts – State and Regional Programs (45.025)
<i>Requirement</i>	Compliance and Internal Control
<i>Noncompliance</i>	Procurement and Suspension and Debarment Compliance Requirement

Condition:

During our auditing procedures performed for quotations over purchase of materials and solicitation of professional services, we noted the following situations:

- 1) In one case of material purchases only one quotation was received and selected. The Institute should perform at least three quotations based on their internal Policies and Procedures. In this case the reason for obtaining and selecting only one quotation was not documented.
- 2) In thirty cases of the professional services agreement files examined, we could not find evidence of the Non-discrimination policies documentation required by the NEA General Terms and Conditions for Grants and Cooperative Agreements.

Criteria:

As per Circular A-110 Sections 45 and 46, some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability and allowability. Procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum: (a) basis for contractor selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price.

As per the Partnership Agreement Reporting Requirements of the National Endowment for the Arts (General Terms and Conditions for Grants and Cooperative Agreements to Organizations) the Federal awarding agency must execute projects, productions, workshops and programs in accordance with the following laws:

- 1) Title VI of the Civil Right Acts of 1964
- 2) Title IX of the Education Amendments of 1972
- 3) Section 504 of the Rehabilitation Act of 1973
- 4) The Age Discrimination Act of 1965
- 5) The American with Disabilities Act of 1990



**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

Cause:

Lack of properly documentation on quotations performed on the purchase of materials and solicitation of professional services in order to comply applicable federal program laws and regulations.

Effect:

Non-compliance with the Circular A-110 Sections 45 and 46 and with the General Terms and Conditions for Grants and Cooperative Agreements to Organizations of NEA's federal program

Amount of questioned cost:

None.

Recommendation:

We recommend the Institute's management personnel to follow and comply with their internal policies and procedures and Circular A-110 Sections 45 and 46 over purchase and document at least: (a) basis for contractor selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price as require by Circular A-110 Sections 45 and 46.

In addition, we recommend the Institute's Contract Department personnel to include on all agreements of professional services the clauses of proper compliance with applicable laws and regulations as follows:

- 1) Title VI of the Civil Right Acts of 1964
- 2) Title IX of the Education Amendments of 1972
- 3) Section 504 of the Rehabilitation Act of 1973
- 4) The Age Discrimination Act of 1965
- 5) The American with Disabilities Act of 1990

Management response:

The Instituto de Cultura Puertorriqueña (ICP) has policies and procedures for procurement. Program offices submit specification or purchase descriptions to ICP's Procurement Office which administers procurement transactions. The Procurement Office thereby generates and maintains records sufficient to detail the significant history of a procurement which is available for audit purposes. These records include quotation selection or rejection, and the basis for the price.

Section 1157.36 of the "Common Rule" establishes that "when procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

ICP's Procurement Office obtains, under small purchase procedures, price or rate quotations from an adequate number of qualified sources and performs cost or price analysis. Its policy permits solicitation to a single source - when the purchase does not exceed \$1,000 and price is considered reasonable when compared to prices in the open market. ICP's Procurement Policy Manual establishes in Article 5,

**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

Section 5.1, 14b:

“Las compras cuyo importe no sobrepase los \$1,000.00 podrán hacerse en mercado abierto solicitando precios a una sola firma vendedora, siempre y cuando el precio cotizado se considere razonable en consonancia con la experiencia que se tiene con respecto al costo normal de los suministros en el mercado. Si ése fuera el caso se procederá a la emisión de la correspondiente Orden de Compra.”

Under 1157.36 of the “Common Rule” procurement by noncompetitive proposals may be used when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies:

- a. The item is available only from a single source;
- b. The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;
- c. The awarding agency authorizes noncompetitive proposals; or
- d. After solicitation of a number of sources, competition is determined inadequate.

Transactional records maintained by the Procurement Office in relation to the questioned purchases must be reviewed to determine compliance or non-compliance with the above mentioned standards.

In regard to the recommendation to include clauses to assure compliance with applicable laws and regulations (Title VI, Title IX, Section 504, the Age Discrimination Act, and ADA), professional services contracts include a clause to that effect:

“El contratado se compromete a no establecer discrimen alguno por motivo de raza, color, sexo, edad, nacimiento, origen, condición social, ideas políticas o religiosas ni cualquier otra causa discriminatoria prohibida por las constituciones y las leyes del Estado Libre Asociado de Puerto Rico y de los Estados Unidos de América en cuanto a la prestación de los servicios objeto de este contrato”.

**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

Finding 2009-08 (Significant Deficiency)

Federal Program National Endowments for the Arts -
 Promotion of the Arts – State and
 Regional Programs (45.025)

Requirement Compliance and Internal Control

Noncompliance Reporting Compliance Requirement

Condition:

The Institute submitted the Poetry Out Loud Special Report in an Excel spreadsheet with information of the lead contact thirty-two days after its due date. (March 3, 2009).

Criteria:

As per Partnership Agreement Reporting Requirements of the National Endowment for the Arts (General Terms and Conditions for Grants and Cooperative Agreements to Organizations) the Poetry Out Loud Program requires a submission of an Special Report which includes an Excel spreadsheet with information for the lead contact at each participating school. This report should be submitted on or before the last Friday of the month of January for each fiscal year.

Cause:

Institute's management personnel could not timely complete and submit the report on or before the last Friday of the month of January 2009.

Effect:

Untimely filing of the Poetry Out Loud Special Report as required by the reporting requirements of the National Endowment for the Arts-General Terms and Conditions for Grants and Cooperative Agreements to Organizations.

Amount of questioned cost:

None.

Recommendation:

We recommended the Institute's management personnel to timely prepare and submit the report to comply with the Special Reports of Poetry Out loud Program reporting requirements.

**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

Management response:

The ICP has consistently complied with NEA's Interim and Final reporting requirements. If faced with special circumstances, it has filed the corresponding extension request.

Poetry Out Loud is a component of NEA's grant (3% of FY 2008's award - \$20,000 of a total of \$717,000). FY 2008 was PR's first incursion into Poetry Out Loud. The program would rely on Poet Mentors for outreach and recruitment of schools. By January 29, 2009 Poet Mentors' contracts had been requested, but yet to be formalized due in part to the administrative changes that were taking place following the Nov 2008 elections. An extension request for the filing of POL's participating school list (special report) was in order. The circumstances were discussed with the granting agency, though not formalized in writing. NEA advised to move forward with the project, which was carried out through to the end result of sending jurisdictional representation to the National Finals in April.

Corrective measures: the ICP will assign a POL Project Coordinator and assure POL's reporting requirements are met as outlined in the General Terms and Conditions and POL delivery schedule.



**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

Condition 08-05

As part of our procedures, we noted that in nine files we found that the sub-grantee incurred in expenses before the contracts were signed.

Status

Similar condition was noted during the year ended June 30, 2009. Refer to finding 2009-06 and Corrective Action Plan.

Condition 08-06

As part of our procedures, we noted that the Institute did not evaluate eleven projects after the program was finished.

Status

Similar condition was noted during the year ended June 30, 2009. Refer to finding 2009-07 and Corrective Action Plan.

Condition 06-01

Our evaluation of accounting records revealed the following situations:

- 1) The accounts receivable and accounts payable transactions were not fully integrated in the system. Accounts receivable and accounts payable subsidiaries are not accurately reconciled.
- 2) Construction projects, equipment acquisitions and retention percentage transactions were not analyzed neither reconciled to the accounting system.
- 3) Reconciliations of accounts were not prepared on a monthly basis.
- 4) Lack of internal controls procedures over various accounting functions.
- 5) Lack of analysis or detail of composition of encumbrances.

Status

Similar condition was noted during the year ended June 30, 2009. Refer to finding 2009-02 and Corrective Action Plan.

Condition 02-01

The accounting manuals were not updated considering the changes made with the implementation of the governmental accounting system

Status

Similar condition was noted during the year ended June 30, 2009. Refer to finding 2009-03 and Corrective Action Plan.



**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

Condition 02-02

The fair value of buildings, art crafts and works of art donated to the Institute were not appraised as required by the government accounting standards

Status

Similar condition was noted during the year ended June 30, 2009. Refer to finding 2009-04 and Corrective Action Plan.

Condition 02-03

The Institute does not maintain updated the employee's files containing all specific documents required by the Administration and Human Resources Department.

Status

Corrective action was taken. Employee's files were updated with the required documentation.



CORRECTIVE ACTION PLAN





ESTADO LIBRE ASOCIADO DE PUERTO RICO
INSTITUTO DE CULTURA PUERTORRIQUEÑA

PO BOX 9024184
SAN JUAN DE PUERTO RICO 00902-4184

October 27, 2010

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

Re: Corrective Action Plan
Compliance Attestation Examination of:
Promotion of the Arts- State and Regional Programs (45.025)
For the year ended June 30, 2009

Dear Sirs:

The Institute of Puerto Rican Culture herein presents its comments and corrective action plan for the referenced audit findings 2009-01 to 2009-08:

Finding 2009-01 (Significant Deficiency)

Condition:

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

Criteria:

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

Cause:

The Institute experienced several delays in the closing of the accounting books and records as of and for the fiscal year ended June 30, 2009. Therefore, auditing procedures had to be postponed, causing non-compliance with the completion and submission of the data collection form and of the Single Audit reporting package, within the timeframe required by OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations" Subpart C – Auditees - .320 Report Submission Section.

Effect:

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

Amount of questioned cost:

None.

Recommendation:

The Institute has to close its books within a reasonable timeframe in order to comply with the data collection form and reporting package filing timeframe as required by OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations" Subpart C – Auditees - .320 Report Submission Section.

Management response:

Contrary to previous years, as discussed in our Management Response to Finding 2009-02, the Institute will assign to the Director of Finance full responsibility on the yearly closing of the Institute's books and reporting to the corresponding agencies on time. This responsibility includes the submission of the data collection form and the respective reporting package.

Finding 2009-02 (Concurring Finding) (Material Weakness)

Condition:

Our evaluation of accounting records and internal controls revealed the following situations:

- 1) There is no formal monthly closing procedure. Book closings are not timely performed at year-end. Closing of accounting book for the year ended June 30, 2009 was completed in August 2010. This time delay is not commensurate with a sound management financial oversight practice.
- 2) Accounts receivable, accounts payable and capital assets subsidiaries are not reconciled on a monthly basis against their corresponding General Ledger accounts.
- 3) There is no management review of period end closing accounting information.
- 4) Construction projects, equipment acquisitions and retention percentage transactions were not analyzed neither reconciled to the accounting system.
- 5) Internal controls deficient procedures over certain accounting functions.
- 6) The Institute is not using Encumbrances Accounting even though the current accounting system has a module for this purpose.
- 7) Lack of a formal written policies and procedures related to the evaluation of the allowance for doubtful accounts.

WSS

- 8) External financing, such as GDB line of credit and "AFI" are not reconciled with counterparty on a monthly basis.

Criteria:

The Institute has maintained its financial information in accounting software that has not been fully deployed and integrated at the optimum level commensurate with needs of the Institute. Also, certain modules such as, property and equipment, budget management, encumbrances, purchases, among others, have not been fully integrated to the General Ledger in the required level of automation of the full accounting cycle.

Cause:

The situation has caused delays in the analysis of financial information and the accounting books and records do not provided the necessary level of reasonable assurance that all transactions and balances are properly and timely recorded in the corresponding period.

Effect:

The Institute accounting department could not issue accurate and timely interim financial statements to the Institute management and Board of Director, so they can make adequately informed administrative decisions.

Amount of questioned cost:

None.

Recommendation:

The institute should improve the accounting closing procedures and the utilization of its accounting system in order to provide reasonable assurance that all transactions and balances are properly and accurately recorded and reconciled within a reasonable period of time.

Management response:

The Institute concurred with the recommendation. The Finance and Accounting Department needs to establish specific closing procedures and monthly standard reports. The purpose of these reports will be to inform the Executive Director and the Board of Directors about the performance of the Institute during the year.

Accounting software is an important part in order to accomplish this task. We agree that it has not been fully integrated. The Institute is in the process of signing an agreement, with a Consultant, depending on the authorization required by Public Law 7, 2010, in order to receive support and training regarding the accounting software.

The Institute will also receive the professional services of a System Consultant in order to review and establish new processes that will maximize the effectiveness and productivity of the Institute workflow.

The designation of a Finance Director to run the monthly closing and to be in charge of this important assignment is in our immediate plans. It is important to mention that the Institute underwent significant impact by the Law #7 and had limited staffing in our Finance and Accounting Department. We have assigned Administrative personnel from other departments in order to give support to the Finance and Accounting department, especially in the Accounts Payable unit that is very important for the Institute.

Finding 2009-03 (Concurring Finding) (Significant Deficiency)

Condition:

The accounting manuals were not updated considering the changes made with the implementation of the governmental accounting system.

Criteria:

The Institute accounting manuals are the policies and procedures established and approved by the Board of Directors to establish the internal controls and maintain written procedures over the accounting process.

Cause:

The lack of priority of management to request that accounting manuals and procedures to be updated.

Effect:

Misunderstanding of policies and procedures and weak internal controls which prevent a proper supervision due to the lack of proper accounting manuals and procedures which provide guidance and authorization for well informed decisions.

Amount of questioned cost:

None.

Recommendation:

The Institute should update the accounting manuals in accordance with new procedures performed applicable to the new governmental accounting system to prevent internal controls failures. Also, to maintain written policies and procedures as approved by the Board of Directors.

mgj

Management response:

As discussed in Finding 2009-02, the Institute will use the services of a System Consultant in order to re-design the existing processes and procedures. The Institute will establish and issue a new Accounting Manual that will be interfaced with the Accounting Software preventing internal control weaknesses.

Finding 2009-04 (Concurring Finding) (Significant Deficiency)

Condition:

The fair value of buildings, art crafts and works of art donated to the Institute were not appraised as required by the government accounting standards.

Criteria:

As per the "Governmental Accounting Standard Board" - GASB Statement No. 34, when a governmental unit receives a donation of capital assets it must be recorded in the government-wide financial statements at fair value on date of donation.

Cause:

Capital assets were not appraised by a qualified professional expert because the Institute does not have necessary funds to pay for these services.

Effect:

This represents an uncertainty about the possible effects in the amount of dollars not recorded for financial statements purpose and the possible under valuation of the capital assets. As a result of this situation, certain assets are not fully covered by the insurance policy.

Amount of questioned cost:

None.

Recommendation:

The Institute should contract the services of a licensed appraiser so that all donated assets in possession of the Intitute as of June 30, 2009 are properly valued and recorded in the General Ledger.

Management response:

The Institute will refer this recommendation to the Board of Directors and propose the immediate action of hiring a licensed appraiser to do the appraisal of the assets. The Audit Committee inside the Board of Directors will follow up on these recommendations and designate an internal project manager that will provide a timeline with specific dates of completion.

Finding 2009-05 (Concurring Finding) (Significant Deficiency)

Condition:

The Institute send the request of funds one or twice during the year, causing delays and strains in the cash flows of the entity.

Criteria:

The NEA in the Documentation Requirements for Grantors on Cost Reimbursements in the General Guidance Section stated that under the cost reimbursement method of funding, the grantee is required to finance its operations with its own working capital with payments being made to reimburse the grantee for actual cash disbursements supported by adequate documentation.

Cause:

Lack of priority from management to request the reimbursement of funds as soon as the matching cost is met by the Institute.

Effect:

This causes the Institute to have cash flow deficiencies due to the unreasonable time (2 years) it takes by the Institute's management personnel to complete the required steps to request the reimbursement of funds from the federal agency (NEA).

Amount of questioned cost:

None.

Recommendation:

 We recommended the Institute' management personnel to process and request the reimbursement of funds within a reasonable time. This will result in the improvement of the Institute cash flows.

Management response:

The Institute concurred with the recommendation. The Director of Finance will designate an alternate person to work with this task during the year. This designation will improve cash flow and compliance with Federal Agencies as well.

Finding 2009-06 (Concurring Finding) (Significant Deficiency)

Federal Program National Endowments for the Arts –

Promotion of the Arts – State and
Regional Programs (45.025)

Requirement Compliance and Internal Control
Noncompliance Sub-Recipient Monitoring Compliance Requirement

Condition:

During our auditing procedures to ascertain proper monitoring of sub-grantees we noted the following situations:

- 1) We noted in one case that the Sub recipient submit a total of 16 tickets to the Institute for site visit of the event, but personnel of the Institute did not use the tickets to perform the site visit.
- 2) The Institute did not evaluate three projects after the program was completed.

Criteria:

As per OMB Circular A-110 _____.51 Monitoring and Reporting program performance, recipients are responsible for managing and monitoring each project, program, sub-award, function or activity supported by the award. Also, federal awarding agency may make site visits as needed.

In addition, as per required by the contract and "Guía para el Desarrollo de Proyectos de Artistas y Entidades Culturales" when a program is completed the Institute should contract the services of an external professional evaluator to evaluate the work performed by the sub-grantee. The sub-grantee must certificate and indicate the results of the external professional evaluator visit.

Cause:

The Institute do not performed the required monitoring procedures to several Sub-recipients to ascertain funds are used properly and as specified by the program contract agreements.

Effect:

Non-compliance with the Circular A-110 _____.51 Monitoring and reporting program performance and with "Guía para el Desarrollo de Proyectos de Artistas y Entidades Culturales".

Amount of questioned cost:

None.

Recommendation:

The Institute should include in its policies and procedures manual a sub-recipient monitoring policy to ascertain that Sub-recipients comply with the following requirements:

- a. Reporting – reviewing within 6 months financial and performance reports submitted by the sub-recipient

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

Management response:

We understand proper monitoring was conducted. Drafting a sub-recipient monitoring policy may further strengthen the process by documenting procedures such as:

- a. Reporting - Common Rule is that a final report is required, which was met. Quarterly or semi-annual reports may be requested, if deemed necessary. A mid-period progress report may be requested, contingent on the contract signature date relative to the end of the period of support.
- b. Site visits –may be conducted as needed to a sample of sub-recipients.
- c. Regular Contact – regular contact with sub-recipients will continue (see above). Additional efforts will be made to document telephone contact and print e-mail follow-up.

External evaluations, though recommended, are not mandated by the NEA. Recognizing the value of external evaluation for project documentation of best practices, among other benefits, the ICP allocated a portion of the award to evaluation, contingent on contract formalization. By March 2009, several sub-grantees' contracts were still pending (from November 2008) which affected project delivery schedules and the ability to secure project evaluation within the period of support. The ICP will continue to recommend external evaluations with the following amendment: will remove external evaluation from ICP's contractual obligations and require the sub-grantee to contract an evaluator, recommended by the ICP. The evaluation fee will be included as part of the sub-award.

Finding 2009-07 (Significant Deficiency)

<i>Federal Program</i>	National Endowments for the Arts - Promotion of the Arts – State and Regional Programs (45.025)
<i>Requirement</i>	Compliance and Internal Control
<i>Noncompliance</i>	Procurement and Suspension and Debarment Compliance Requirement

Condition:

During our auditing procedures performed for quotations over purchase of materials and solicitation of professional services, we noted the following situations:

- 1) In one case of material purchases only one quotation was received and selected. The Institute should perform at least three quotations based on their internal Policies and
- 2) Procedures. In this case the reason for obtaining and selecting only one quotation was not documented.
- 3) In thirty cases of the professional services agreement files examined, we could not find evidence of the Non-discrimination policies documentation required by the NEA General Terms and Conditions for Grants and Cooperative Agreements.

Criteria:

As per Circular A-110 Sections 45 and 46, some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability and allowability. Procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum: (a) basis for contractor selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price.

As per the Partnership Agreement Reporting Requirements of the National Endowment for the Arts (General Terms and Conditions for Grants and Cooperative Agreements to Organizations) the Federal awarding agency must execute projects, productions, workshops and programs in accordance with the following laws:

- 1) Title VI of the Civil Right Acts of 1964
- 2) Title IX of the Education Amendments of 1972
- 3) Section 504 of the Rehabilitation Act of 1973
- 4) The Age Discrimination Act of 1965
- 5) The American with Disabilities Act of 1990

Cause:

Lack of properly documentation on quotations performed on the purchase of materials and solicitation of professional services in order to comply applicable federal program laws and regulations.

Effect:

Non-compliance with the Circular A-110 Sections 45 and 46 and with the General Terms and Conditions for Grants and Cooperative Agreements to Organizations of NEA's federal program

Amount of questioned cost:

None.

Recommendation:

We recommend the Institute's management personnel to follow and comply with their internal policies and procedures and Circular A-110 Sections 45 and 46 over purchase and document at least: (a) basis for contractor selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price as require by Circular A-110 Sections 45 and 46.

In addition, we recommend the Institute's Contract Department personnel to include on all agreements of professional services the clauses of proper compliance with applicable laws and regulations as follows:

- 1) Title VI of the Civil Right Acts of 1964
- 2) Title IX of the Education Amendments of 1972
- 3) Section 504 of the Rehabilitation Act of 1973
- 4) The Age Discrimination Act of 1965
- 5) The American with Disabilities Act of 1990

Management response:

The Instituto de Cultura Puertorriqueña (ICP) has policies and procedures for procurement. Program offices submit specification or purchase descriptions to ICP's Procurement Office which administers procurement transactions. The Procurement Office thereby generates and maintains records sufficient to detail the significant history of a procurement which is available for audit purposes. These records include quotation selection or rejection, and the basis for the price.

Section 1157.36 of the "Common Rule" establishes that "when procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

ICP's Procurement Office obtains, under small purchase procedures, price or rate quotations from an adequate number of qualified sources and performs cost or price analysis. Its policy permits solicitation to a single source - when the purchase does not exceed \$1,000 and price is considered reasonable when compared to prices in the open market.

ICP's Procurement Policy Manual establishes in Artículo 5, Section 5.1, 14b:

"Las compras cuyo importe no sobrepase los \$1,000.00 podrán hacerse en mercado abierto solicitando precios a una sola firma vendedora, siempre y cuando el precio cotizado se considere razonable en consonancia con la experiencia que se tiene con respecto al costo normal de los suministros en el mercado. Si ése fuera el caso se procederá a la emisión de la correspondiente Orden de Compra."

Under 1157.36 of the "Common Rule" procurement by noncompetitive proposals may be used when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies:

- a. The item is available only from a single source;
- b. The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;
- c. The awarding agency authorizes noncompetitive proposals; or
- d. After solicitation of a number of sources, competition is determined inadequate.

Transactional records maintained by the Procurement Office in relation to the questioned purchases must be reviewed to determine compliance or non-compliance with the above mentioned standards.

In regard to the recommendation to include clauses to assure compliance with applicable laws and regulations (Title VI, Title IX, Section 504, the Age Discrimination Act, and ADA), professional services contracts include a clause to that effect:

“El contratado se compromete a no establecer discrimen alguno por motivo de raza, color, sexo, edad, nacimiento, origen, condición social, ideas políticas o religiosas ni cualquier otra causa discriminatoria prohibida por las constituciones y las leyes del Estado Libre Asociado de Puerto Rico y de los Estados Unidos de América en cuanto a la prestación de los servicios objeto de este contrato”.

Finding 2009-08 (Significant Deficiency)

<i>Federal Program</i>	National Endowments for the Arts - Promotion of the Arts – State and Regional Programs (45.025)
<i>Requirement</i>	Compliance and Internal Control
<i>Noncompliance</i>	Reporting Compliance Requirement

Condition:

The Institute submitted the Poetry Out Loud Special Report in an Excel spreadsheet with information of the lead contact thirty-two days after its due date. (March 3, 2009).

Criteria:

As per Partnership Agreement Reporting Requirements of the National Endowment for the Arts (General Terms and Conditions for Grants and Cooperative Agreements to Organizations) the Poetry Out Loud Program requires a submission of an Special Report which includes an Excel spreadsheet with information for the lead contact at each participating school. This report should be submitted on or before the last Friday of the month of January for each fiscal year.

Cause:

Institute’s management personnel could not timely complete and submit the report on or before the last Friday of the month of January 2009.

WJ

Effect:

Untimely filing of the Poetry Out Loud Special Report as required by the reporting requirements of the National Endowment for the Arts-General Terms and Conditions for Grants and Cooperative Agreements to Organizations.

Amount of questioned cost:

None.

Recommendation:

We recommended the Institute's management personnel to timely prepare and submit the report to comply with the Special Reports of Poetry Out loud Program reporting requirements.

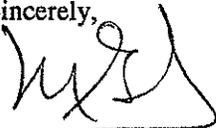
Management response:

The ICP has consistently complied with NEA's Interim and Final reporting requirements. If faced with special circumstances, it has filed the corresponding extension request.

Poetry Out Loud is a component of NEA's grant (3% of FY 2008's award - \$20,000 of a total of \$717,000). FY 2008 was PR's first incursion into Poetry Out Loud. The program would rely on Poet Mentors for outreach and recruitment of schools. By January 29, 2009 Poet Mentors' contracts had been requested, but yet to be formalized due in part to the administrative changes that were taking place following the Nov 2008 elections. An extension request for the filing of POL's participating school list (special report) was in order. The circumstances were discussed with the granting agency, though not formalized in writing. NEA advised to move forward with the project, which was carried out through to the end result of sending jurisdictional representation to the National Finals in April.

Corrective measures: the ICP will assign a POL Project Coordinator and assure POL's reporting requirements are met as outlined in the General Terms and Conditions and POL delivery schedule

Sincerely,



Mercedes Gómez Marrero
Executive Director