

**COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT**

**SINGLE AUDIT REPORT**

**YEAR ENDED JUNE 30, 2010**

**COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT**

**SINGLE AUDIT REPORT  
YEAR ENDED JUNE 30, 2010**

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## Torres Llompart, Sánchez Ruiz LLP

Certified Public Accountants and Business Consultants  
Member of Kreston International

PR-License No. 221 / NY-License No. 61386 / NJ-License No. 20CB00616800

Partners:

Luis J. Torres Llompart\*, CPA, CFE  
Frank Sánchez Ruiz, CPA, CMA, CIA, CGFM  
Nelly Vázquez Merced, CPA

Members of:

Division of CPA Firms  
American Institute Certified Public Accountants  
New York State Society of Certified Public Accountants  
Puerto Rico State Society of Certified Public Accountants  
\*Also admitted in the State of Florida  
Admitted in the State of New Jersey

Honorable Henry Newmann Zayas  
Secretary  
Sports and Recreation Department  
San Juan, Puerto Rico

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying Statement of Receipts and Disbursements (the Statement) of the Sports and Recreation Department of the Commonwealth of Puerto Rico (the SRD) for the year ended June 30, 2010. This Statement is the responsibility of the SRD's management. Our responsibility is to express an opinion on this Statement based on our audit.

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

As described in Note 1 to the Statement, the SRD prepares its Statement of Receipts and Disbursements on a receipts and disbursements method of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the Statement referred to above presents fairly, in all material respects, the receipts and disbursements of the Sports and Recreation Department of the Commonwealth of Puerto Rico for the year ended June 30, 2010, in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards* we have also issued our report dated December 31, 2010, on our consideration of the SRD's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

San Juan, PR  
PO Box 270233  
San Juan, PR 00927-0233  
Phone: (787) 758-4620  
Fax: (787) 764-7385

Manhattan, NY  
PO Box 850, Bowling Green Station  
New York, NY 10274  
Phone: (646) 214-1064  
Fax: (917) 591-8701

Dominican Republic  
12 John F. Kennedy Ave.  
Antonio Barletta Building  
Ens. Miraflores, Santo Domingo  
Phone: (809) 566-9094

Honorable Henry Newmann Zayas  
Secretary  
Sports and Recreation Department  
San Juan, Puerto Rico

**INDEPENDENT AUDITORS' REPORT (CONTINUED)**

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

As discussed in Note 5 to the Statement, the SRD has expended certain federal grant funds in a manner that may have violated certain of the restrictive provisions of the related grants. The possible outcome of this matter is uncertain at this time. If expenditures are disallowed as a result of this situation, the SRD may be subject to possible federal claims for refunds of grants monies.

December 31, 2010  
License No. 221  
San Juan, Puerto Rico

The stamp number 2562801 was  
affixed to the original of this report.

COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT  
STATEMENT OF RECEIPTS AND DISBURSEMENTS  
YEAR ENDED JUNE 30, 2010

Program	State funds		Federal funds		(Totals Memorandum only)	
	Receipts	Disbursements	Receipts	Disbursements	Receipts	Disbursements
Management and Administration	\$ 6,995,997	\$ 6,711,102			\$ 6,995,997	\$ 6,711,102
Physical Infrastructure	18,724,052	18,745,676			18,724,052	18,745,676
Sports Development and Promotion	6,472,951	6,902,026	\$1,751,022	\$ 2,276,992	8,223,973	9,179,018
Joint Resolutions, Special Accounts and Others	18,707,843	13,728,173			18,707,843	13,728,173
Joint Resolutions, Special Accounts and Others, from prior years	<u>16,257,237</u>	<u>35,040,267</u>			<u>16,257,237</u>	<u>35,040,267</u>
	<u>\$67,158,080</u>	<u>\$81,127,244</u>	<u>\$1,751,022</u>	<u>\$ 2,276,992</u>	<u>\$68,909,102</u>	<u>\$83,404,236</u>

See accompanying notes to statement of receipts and disbursements.

**COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT**

**NOTES TO STATEMENT OF RECEIPTS AND DISBURSEMENTS**

**YEAR ENDED JUNE 30, 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The Sports and Recreation Department (the SRD) of the Commonwealth of Puerto Rico was organized under Law Number 126 of June 13, 1980, as amended. The SRD is responsible for promoting innovative strategies for the development of recreational and sports activities as an alternative for the good use of idle time and the improvement of the quality of life of the people of Puerto Rico. The Secretary is appointed by the Governor of the Commonwealth of Puerto Rico.

**Basis of presentation**

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

The individual funds included in these fund types are classified in the following programs:

*Management and Administration* – This fund is used to account for resources and expenditures related to providing support and advice to the SRD by providing tools and mechanisms to facilitate the coordination and execution of the overall administration of the human resources, acquisitions, finances and general services.

*Physical Infrastructure* – This fund is used to account for resources and expenditures related to maintaining in optimum conditions the sports and recreational facilities to satisfy the needs of the community and to providing support to the service programs carried on through the Regional offices located at Añasco (Northwest), Arecibo (North), Barranquitas (Central), Caguas (South-Central), Canóvanas (Northeast), Humacao (Southeast), Mayagüez (Southwest), Ponce (South), San Juan (Metropolitan) and Toa Baja ("El Toa").

**COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT**

**NOTES TO STATEMENT OF RECEIPTS  
AND DISBURSEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of presentation (continued)**

*Sports Development and Promotion* – This fund is used to account for resources and expenditures related to promoting, advising and supervising the sports activities, fomenting a greater participation of the youth, and providing the citizens healthy alternatives for the best use of its idle time with the purposes of controlling the crime and improving the quality of life.

*Joint Resolutions and Special Accounts and Others* - This fund is used to account for resources which are designed to attain specific purposes in accordance with its applicable laws. Such funds are authorized by the Legislature of the Commonwealth of Puerto Rico or may come from service fees, donations from citizens and private entities, and other collections from some governmental entities. These allocations remain active until their purposes are fulfilled, independently from the fiscal year approved.

**Basis of accounting**

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

**Budgetary accounting**

Formal budgetary accounting is employed as a management control tool for all funds of the SRD. Annual operating budgets are adopted each fiscal year through passage of an annual budget which is approved by the Legislature of the Commonwealth of Puerto Rico and amended as required throughout the year. Effective June 30, 2001, all unencumbered budget appropriations of state funds lapse after the end of each fiscal year.

The Statement of Receipts and Disbursements is presented at the programmatic level. However, budgetary control and accounting is exercised at a lower level to provide management with detailed control over expenditures at the appropriate budget level.

**COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT**

**NOTES TO STATEMENT OF RECEIPTS  
AND DISBURSEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Totals memorandum only columns**

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

**2. RETIREMENT PLANS**

All full-time regular employees are covered and must participate in the employee retirement plan administered by the Employees' Retirement System of the Government of Puerto Rico and its instrumentalities, which is a cost-sharing multiple employer plan. Employees must contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the salary in excess of \$550. The SRD contributes 9.275% of the total gross salaries.

Total contributions made for the pension plan during the year ended June 30, 2010, amounted to \$1,562,942 for employees paid with state funds.

**3. COMPENSATED ABSENCES**

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

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

**4. COMMITMENTS**

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

**COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT**

**NOTES TO STATEMENT OF RECEIPTS  
AND DISBURSEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**4. COMMITMENTS (CONTINUED)**

Rent paid during the fiscal year ended June 30, 2010, under these lease agreements amounted to \$225,740. Information of the future minimum rental payments required under operating leases was not available.

**5. CONTINGENCIES**

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

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

The Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance With OMB Circular A-133 for the year ended June 30, 2010, disclosed material instances of noncompliance with applicable laws and regulations and significant deficiencies and material weaknesses in the internal accounting and administrative controls. Such report includes questioned costs amounting to \$160,912 for the year ended June 30, 2010.

**COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2010**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>CASH ASSISTANCE:</b>		
<u><b>U.S. Department of Housing and Urban Development / Pass through the Puerto Rico Public Housing Administration</b></u>		
Public and Indian Housing	14.850	\$ 1,730,062
<u><b>U.S. Department of Education / Pass through the Puerto Rico Department of Education</b></u>		
Twenty-first Century Community Learning Centers	84.287	493,074
<u><b>U.S. Department of Justice / Pass through the Puerto Rico Department of Justice</b></u>		
Edward Byrne Memorial Justice Assistance Grant	16.738	<u>53,856</u>
		<u>\$ 2,276,992</u>

See notes to schedule of expenditures of federal awards.

**COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2010**

**1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Sports and Recreation Department of the Commonwealth of Puerto Rico (the SRD) under programs of the federal government for the year ended June 30, 2010. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the SRD, it is not intended to and does not purport to present the financial position, changes in net assets, or cash flows of the SRD.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- a. Expenditures reported on the Schedule are reported on the receipts and disbursements method of accounting. It is drawn primarily from the SRD's internal accounting records, which are the basis for the SRD's Statement of Receipts and Disbursements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for States, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- b. Pass-through entities identifying numbers were not available.

**3. RELATIONSHIP TO THE STATEMENT**

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



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Sports and Recreation Department  
San Juan, Puerto Rico

### 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

We have audited the Statement of Receipts and Disbursements (the Statement) of the Sports and Recreation Department of the Commonwealth of Puerto Rico (the SRD) for the year ended June 30, 2010, and have issued our report thereon dated December 31, 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. Our report on the Statement discloses that, as described in Note 1 to the Statement, the SRD prepares its Statement on the receipts and disbursements method of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

#### Internal Control over Financial Reporting

In planning and performing our audit, we considered the SRD's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Statement of Receipts and Disbursements, but not for the purpose of expressing an opinion on the effectiveness of the SRD's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SRD'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 designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 described in the accompanying schedule of findings and questioned costs, 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.

San Juan, PR  
PO Box 270233  
San Juan, PR 00927-0233  
Phone: (787) 758-4620  
Fax: (787) 764-7385

Manhattan, NY  
PO Box 850, Bowling Green Station  
New York, NY 10274  
Phone: (646) 214-1064  
Fax: (917) 591-8701

Dominican Republic  
12 John F. Kennedy Ave.  
Antonio Barletta Building  
Ens. Miraflores, Santo Domingo  
Phone: (809) 566-9094

Honorable Henry Newmann Zayas  
Secretary  
Sports and Recreation Department  
San Juan, Puerto Rico

**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 (CONTINUED)**

Internal Control over Financial Reporting (continued)

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 SRD's Statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings No. 10-01 and 10-02 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings No. 10-03 through 10-04 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the SRD's Statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance 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 Findings No. 10-02 through 10-04.

We also noted certain other matters that we reported to management of the SRD in a separate letter dated December 31, 2010.

The SRD's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the SRD's response and, accordingly, we express no opinion on it.

Honorable Henry Newmann Zayas  
Secretary  
Sports and Recreation Department  
San Juan, Puerto Rico

**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 (CONTINUED)**

Compliance and Other Matters (continued)

This report is intended solely for the information and use of the management and officials of the Sports and Recreation Department, the Commonwealth of Puerto Rico, federal awarding agencies, pass-through entities, and other regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.



December 31, 2010  
License No. 221  
San Juan, Puerto Rico

The stamp number 2562802 was  
affixed to the original of this report.



# Torres Llompart, Sánchez Ruiz LLP

Certified Public Accountants and Business Consultants  
Member of Kreston International

PR-License No. 221 / NY-License No. 61386 / NJ-License No. 20CB00616800

**Partners:**

Luis J. Torres Llompart\*, CPA, CFE  
Frank Sánchez Ruiz, CPA, CMA, CIA, CGFM  
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**Members of:**

Division of CPA Firms  
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Puerto Rico State Society of Certified Public Accountants  
\*Also admitted in the State of Florida  
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Honorable Henry Newmann Zayas  
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Sports and Recreation Department  
San Juan, Puerto Rico

## 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

### Compliance

We have audited the compliance of the Sports and Recreation Department of the Commonwealth of Puerto Rico (the SRD) 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, 2010. The SRD's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the SRD's management. Our responsibility is to express an opinion on the SRD'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 SRD'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 SRD's compliance with those requirements.

As described in Findings No.10-02 thru 10-04 in the accompanying schedule of findings and questioned costs, the SRD did not comply with the requirements that are applicable to its major programs, as follows:

San Juan, PR

PO Box 270233  
San Juan, PR 00927-0233  
Phone: (787) 758-4620  
Fax: (787) 764-7385

Manhattan, NY

PO Box 850, Bowling Green Station  
New York, NY 10274  
Phone: (646) 214-1064  
Fax: (917) 591-8701

Dominican Republic

12 John F. Kennedy Ave.  
Antonio Barletta Building  
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Phone: (809) 566-9094

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Sports and Recreation Department  
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

Compliance (continued)

<u>Reference Number</u>	<u>Compliance Requirement</u>	<u>CFDA Number</u>	<u>Major Program</u>
10-02	Procurement and Suspension and Debarment	14.850	Public Housing and Indian Housing Program
10-03	Cash Management	84.287	Twenty-first Century Community Learning Centers
10-04	Special tests and Provisions	84.287	Twenty-first Century Community Learning Centers

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

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

Internal Control Over Compliance

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

Honorable Henry Newmann Zayas  
Secretary  
Sports and Recreation Department  
San Juan, Puerto Rico

**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 (CONTINUED)**

Internal Control Over Compliance (continued)

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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 described below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding No. 10-02 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings No. 10-01, 10-03 and 10-04 to be significant deficiencies.

The SRD's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the SRD's response and, accordingly, we express no opinion on it.

Honorable Henry Newmann Zayas  
Secretary  
Sports and Recreation Department  
San Juan, Puerto Rico

**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 (CONTINUED)**

This report is intended solely for the information and use of the management and officials of the Sports and Recreation Department, the Commonwealth of Puerto Rico, federal awarding agencies, pass-through entities, and other regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Torres Blompart, Sánchez Ruiz LLP*

December 31, 2010  
License No. 221  
San Juan, Puerto Rico

The stamp number 2562803 was  
affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2010**

**SUMMARY OF AUDITORS' RESULTS**

1. The independent auditors' report on the Statement of Receipts and Disbursements expressed that such statement was prepared using the receipts and disbursement method of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Additionally, the report includes a paragraph on emphasis of matters.
2. Significant deficiencies on internal control over financial reporting were identified, some of which are considered material weaknesses.
3. Deficiencies on internal control over compliance with requirements applicable to major federal award programs were identified, one of which was considered a material weakness and others were considered significant deficiencies.
4. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed a qualified opinion on the following major programs:
 

CFDA 14.850	Public and Indian Housing Program
CFDA 84.287	Twenty-First Century Learning Centers
5. The SRD did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.
6. The audit disclosed findings required to be reported under OMB Circular A-133.
7. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
8. The SRD major programs and related questioned costs were the following:

<u>CFDA number</u>	<u>Name of federal grant</u>	<u>Questioned costs</u>
14.850	Public and Indian Housing Program (Operating Fund)	<b>\$160,912</b>
84.287	Twenty-First Century Learning Centers	_____
		<b><u>\$160,912</u></b>

**COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**FINDING NO. 10-01      ACCOUNTING RECORDS**

**Programs**

State and all federal financial assistance programs

**Category**

Internal control

**Compliance requirement**

Special tests and provisions

**Condition found**

During our audit procedures for the fiscal year ended June 30, 2010, we noted that the Sports and Recreation Department (SRD) did not maintain a general ledger to integrate the subsidiary ledgers of its governmental fund types. Accordingly, the SRD was unable to prepare monthly financial statements. Monthly financial statements are necessary to assess the SRD's financial operational results, which is imperative to enable timely, effective, and efficient management decisions.

Additionally, the SRD did not maintain adequate budgeting policies and procedures, and had inappropriate and/or incomplete cut-off procedures, as well as incomplete month-end and year-end closing procedures. The Treasury Department of the Commonwealth of Puerto Rico provides accounting services to the SRD through its accounting system (PRIFAS). The following deficiencies related to the accounting procedures and financial reporting practices were noted during our audit:

- Our review of the procedures followed regarding the use of the budget as a control tool revealed that budget versus actual comparisons were not prepared to evaluate SRD's performance. The financial management system shall establish a relation of financial information with performance or productivity data, including the production of unit cost information whenever appropriate. A budget is a plan for the future operations of an organization. It is based on past experience and management's intentions or expectations of future conditions that will affect the entity. It allows management to plan the actions necessary for achieving desired or anticipated results. The SRD's record-system should provide a mechanism to ensure that costs do not exceed the budgeted level for each program activity or other budget category.

**COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**FINDING NO. 10-01      ACCOUNTING RECORDS (CONTINUED)**

**Condition found (continued)**

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

- We noted that the SRD's payroll subsidiary ledgers are not reconciled with the PRIFAS' GL-015 report received from the Puerto Rico Department of the Treasury. Accordingly, existing policies and procedures do not ensure: 1) that subsidiary ledgers are being reconciled properly; 2) that reconciliations are reviewed by supervisory personnel, and 3) the detection, on a timely basis, of any significant adjustment that may be material to the financial statements.

**Criteria**

24 CFR Section 85.20 and 44 CFR Section 13.20 (a) and (b) (1) (2) and (4) establish that:

- a. A state must expend and account for grant funds in accordance with state laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the state, as well as those of its sub grantees and cost-type contractors, must be sufficient to:
  - i. Permit preparation of reports required by this part and the statutes authorizing the grant, and
  - ii. Permit the tracing of funds to a level of expenditures adequate to establish that these funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

**COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**FINDING NO. 10-01      ACCOUNTING RECORDS (CONTINUED)**

**Criteria (continued)**

- b. The financial management systems of the grantees and sub grantees must meet the following standards:
- i. Financial reporting - Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub grant.
  - ii. Accounting records - Grantees and sub grantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
  - iii. Internal control - Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
  - iv. Budget control - Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible

**Effect**

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

**Questioned costs**

None

**COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**FINDING NO. 10-01      ACCOUNTING RECORDS (CONTINUED)**

**Recommendations**

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

The SRD shall revise its accounting practices and policies to provide for an accurate financial reporting system. This will require a sophisticated plan in coordination with the Puerto Rico Department of the Treasury for the implementation of an accounting and financial management system that permits the preparation of financial information and reports required by the different oversight entities. This plan should consider, among other things, the following:

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

We also recommend the SRD to compare budget information to actual results of operations on a regular basis and to investigate the cause of significant variances, so that corrective action could be taken, if necessary.

**COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**FINDING NO. 10-02      PROCUREMENT AND SUSPENSION AND DEBARMENT**

**Federal program**

14.850      Public and Indian Housing

**Category**

Compliance / Internal control

**Compliance requirements**

Procurement and suspension and debarment

**Condition found**

In testing compliance and internal controls over cost allowability, and procurement and suspension and debarment requirements for the Public and Indian Housing program, we selected 58 disbursements (excluding those related to payroll and fringe benefits expenditures) that totaled \$264,489 (15%) from a total of \$1,770,316. During the test, we noted the following exceptions.

The legend of the deficiencies noted is as follows:

- A. Quote, bid or proposal was not available for examination.
- B. No evidence as to compliance with suspension and department requirements was found.

Voucher Number	Voucher Date	Amount	Deficiencies		Questioned Cost
			A	B	
10004589	12/10/09	\$ 55,000	X	X	\$ 55,000
10006058	03/25/10	\$ 105,912	X	X	105,912
			<u>2</u>	<u>2</u>	<u>\$ 160,912</u>

The exceptions mentioned above are the result of: a) deficiencies of the filing system, which does not provide for immediate identification or retrieval of payment documents; and b) the failure to implement adequate internal control procedures, such as thorough managerial review, which should detect and correct, on a timely basis, instances where controls are not being followed.

**COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**FINDING NO. 10-02      PROCUREMENT AND SUSPENSION AND DEBARMENT  
(CONTINUED)**

**Criteria**

24 CFR Section 85.36 and 34 CFR Sections 80.36 (b) (1) and 36 (b) (1) of the OMB Common Rule establish that grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. The Acquisition Rulings of the SRD establish, among others, the following policies and procedures:

- Purchases up to \$500 – The Purchaser shall obtain by phone at least three quotes from potential vendors. This procedure must be documented with a Record of Bids (Form SC-1052.)
- Purchases over \$500 up to \$2,500 – The Purchaser shall obtain at least three quotes with a written confirmation from potential vendors before the issuance of a purchase order. This procedure must also be documented with a Record of Bids (Form SC-1052).
- Purchases over \$2,500 up to \$10,000 – The Purchaser shall obtain at least three written quotes from potential vendors before the issuance of a purchase order. This procedure must also be documented with a Record of Bids (Form SC-1052).
- Purchases over \$10,000 up to \$30,000 – An informal bid shall be performed to ensure the highest number of potential bidders. The Purchaser shall send an Invitation for Informal Bid with the corresponding terms and specifications.
- Purchases over \$30,000 – A formal bid shall be performed to ensure the highest number of potential bidders. The Purchaser shall send an Invitation for Formal Bid with the corresponding specifications. The related forms must be submitted to the Bidding Board.

24 CFR Section 85.36 (d) (1) and 34 CFR Section 80.36 (4) (d) (1) states that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

**COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**FINDING NO. 10-02      PROCUREMENT AND SUSPENSION AND DEBARMENT  
(CONTINUED)**

**Effect**

Since state policies and procedures were not followed and federal regulations were not met, the SRD did not provide for full and open competition because none of the disbursements listed above were supported with justifiable rationale to limit competition. As a result, the SRD could be required to reimburse federal funds to the grantor agency for the expenditures incurred for not following the corresponding procurement policies and procedures.

**Questioned costs**

\$160,912      CFDA 14.850      Public and Indian Housing Program

**Recommendation**

We recommend the SRD to enforce its procurement policies and procedures to conform to federal laws and regulations and provide adequate training to employees regarding each program requirements and proper procurement and disbursement procedures.

**COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**FINDING 10-03 CASH MANAGEMENT**

**Federal program**

CFDA 84.287 Twenty – first Century Community Learning Centers

**Category**

Compliance / Internal control

**Compliance requirement**

Cash management

**Condition found**

The SRD does not have a formally structured cash management system to effectively manage the timing between the receipt of federal funds and the ultimate disbursement of these funds. We tested fifty-eight (58) disbursements related to the Twenty – first Century Community Learning Centers to determine compliance with cash management requirements.

The conditions indicated below are the result of deficiencies in the cash request documentation procedures related to the Twenty – first Century Community Learning Centers. The basis for making requests of federal funds to the grantors is not based upon an accurate and reliable determination of actual cash needs. Also, cash request forms are not being thoroughly reviewed by the SRD supervisors to ensure that they are prepared following the federal guidelines and provide for the minimization of the time elapsed between the receipt of funds and their ultimate disbursement.

Voucher Number	Voucher Date	Check Number	Check Date	Check Amount	Date Cleared	Request Number	Credit Notice Number	Credit Notice Date	Days Elapsed Between Credit Notice and Payment Cleared
10AP3062	7/28/2009	02322888	8/10/2009	\$3,255	12/14/2009	2009-003	2002017658	12/1/2009	13
10003578	12/08/2009	02340103	9/21/2009	\$1,578	2/19/2010	2009-003	2002017658	12/1/2009	80

**COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**FINDING      10-03      CASH MANAGEMENT (CONTINUED)**

**Criteria**

Part 3 of the Compliance Supplement establishes that when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before the reimbursement is requested from the Federal Government.

Paragraph 2 (a) of the OMB Circular A-102, Section 21 (b) of the Common Rule, and Section 22 of the OMB Circular A-110 establish that agency methods and procedures for transferring funds shall minimize the time elapsing between the transfer to recipients of grants and disbursement by the grantee or sub grantee, in accordance with Treasury regulations at 31 CFR Part 205.

31 CFR 205.33 establishes that a State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management practices in regard to funds transfers to sub grantees in accordance with OMB Circular A-102.

**Effect**

The ability to manage federal awards in compliance with laws, regulations, and provisions of contracts and grant agreements could be questioned.

**Questioned costs**

None

**Recommendation**

The SRD shall request from the federal grantor only the actual costs paid for its own funds before the reimbursement is requested to the grantors. To meet this objective, the SRD should establish more reliable and thorough cash management procedures and subjecting such cash management to the formal review and approval of its management.

**COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**FINDING NO. 10-04      PARTICIPATION OF PRIVATE SCHOOL CHILDREN**

**Federal program**

CFDA 84.287      Twenty – first Century Community Learning Centers

**Category**

Compliance / Internal control

**Compliance requirement**

Special tests and provisions – Participation of private school children

**Condition found**

We noted that for the Twenty-first Century Community Learning Centers program the Sports and Recreation Department of the Commonwealth of Puerto Rico (SRD) accounting records (PRIFAS) are not sufficiently expanded to account for the relative share of enrolled students in public and private schools.

Accordingly, we were unable to determine if for this program the expenditures were equal on a per-pupil basis for students in public and private schools. This condition arises because the SRD recorded the funds distributed to public and private schools students, teachers and other educational personnel in a single account.

**Criteria**

34 CFR Section 299.7 establishes that expenditures for services and benefits to eligible private school children and their teachers and other educational personnel must be equal on a per-pupil basis to the expenditures for participating public school children and their teachers and other educational personnel, taking into account the number and educational needs of the children, teachers and other educational personnel to be served.

34 CFR Section 80.20 (a) (2) indicates that a State must expand and account for grant funds sufficiently to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

**COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**FINDING NO. 10-04      PARTICIPATION OF PRIVATE SCHOOL CHILDREN  
(CONTINUED)**

**Effect**

There is no audit trail to determine whether the SRD provided equitable services to eligible participants in private schools. Noncompliance with the above mentioned requirement could lead to administrative sanctions by the grantor, including disallowances of costs. It could also be interpreted as a failure to achieve the program's objectives.

**Questioned costs**

Could not be determined

**Recommendation**

We recommend the SRD to establish policies and procedures to maintain statistical data on a per-pupil basis for public and private school students, teachers and other educational personnel, taking into consideration their numbers and needs. These shall provide the necessary means to verify compliance with applicable requirements at all times. Also, we recommend the SRD to expand the chart of accounts to provide for a separate identification based on the relative share of enrolled students in public and private schools.

# **SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT  
STATUS OF PRIOR YEAR AUDIT FINDINGS  
SINGLE AUDIT FOR THE YEAR ENDING ON JUNE 30, 2010

Finding Number	Year finding repeated	First year appear Finding	Findings	CFDA Number	Corrective Action	Status	Responsible Functionary And Contact Number
09-01	2005 2006 2007 2008	2004	<p><u>ACCOUNTING RECORDS</u></p> <p>Category</p> <p>Internal control</p> <p>Compliance requirement</p> <p>Special tests and provisions</p> <p>Condition found</p> <p>During our audit procedures for the fiscal year ended June 30, 2008, we noted that the Sports and Recreation Department (SRD) did not maintain a general ledger to integrate the</p>	14-850 84-287	We are in the final phase of implementing the MIP "Fund Accounting" System. We expect the condition to be correct once the system implementation is complete.	<p><b>Partially Completed</b></p> <p>Expected to be completed during the 2010-2011 fiscal year.</p>	<p>Mr. Juan Rios, Administration Auxiliary Secretary (787) 728-1927</p> <p>Mrs. Maria C. Ortiz Navarro, Finance Division Director (787) 721-9149</p> <p>Mrs. Aida I. Massa, Auxiliary,</p>

*Henry J. Jarama*

Principal Functionary Signature or Respective Representative

1/21/11  
Date

COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT  
STATUS OF PRIOR YEAR AUDIT FINDINGS  
SINGLE AUDIT FOR THE YEAR ENDING ON JUNE 30, 2010

Finding Number	Year finding repeated	First year appear Finding	Findings	CFDA Number	Corrective Action	Status	Responsible Functionary And Contact Number
			<p>subsidiary ledgers of its governmental fund types. Accordingly, the SRD was unable to prepare monthly financial statements. Monthly financial statements are necessary to assess the SRD's financial position, which is imperative to enable timely, effective, and efficient management decisions.</p> <p>Additionally, the SRD did not maintain adequate budgeting policies and procedures, and had inappropriate and/or incomplete cut-off procedures, as well as incomplete month-end and year-end closing procedures. The Treasury Department of the Commonwealth of Puerto Rico provides accounting services to the SRD through their accounting system (PRIFAS). The following deficiencies related to the accounting procedures and financial reporting practices were noted</p>				<p>Budget and Planning Office Auxiliary Director (787) 721-9184</p>

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COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT

STATUS OF PRIOR YEAR AUDIT FINDINGS  
SINGLE AUDIT FOR THE YEAR ENDING ON JUNE 30, 2010

Finding Number	Year finding repeated	First year appear Finding	Findings	CFDA Number	Corrective Action	Status	Responsible Functionary And Contact Number
			<p>during our audit:</p> <ul style="list-style-type: none"> <li>Our review of the procedures followed regarding the use of the budget as a control tool revealed that budget versus actual comparisons were not prepared to evaluate SRD's performance. The financial management system shall establish a relation of financial information with performance or productivity data, including the production of unit cost information whenever appropriate. A budget is a plan for the future operations of an organization. It is based on experience and management's intentions or expectations of future conditions that will affect the entity. It allows management to plan the actions necessary for achieving desired or</li> </ul>				

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COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT  
STATUS OF PRIOR YEAR AUDIT FINDINGS  
SINGLE AUDIT FOR THE YEAR ENDING ON JUNE 30, 2010

Finding Number	Year finding repeated	First year appear Finding	Findings	CFDA Number	Corrective Action	Status	Responsible Functionary And Contact Number
			<p>anticipated results. The SRD's record-system should provide a mechanism to ensure that costs do not exceed the budgeted level for each program activity or other budget category.</p> <p>The record-system must maintain cumulative expenditures, provide information for comparison of budgeted and actual costs and determine amounts available for future expenditures. As an additional step in grantee resource management, SRD's officials should periodically review the status of planned expenditures. If a function or activity does not require the amount originally budgeted and the Federal agency or the terms of the grant agreement permit, the balance can be reallocated to other</p>				

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COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT

STATUS OF PRIOR YEAR AUDIT FINDINGS  
SINGLE AUDIT FOR THE YEAR ENDING ON JUNE 30, 2010

Finding Number	Year finding repeated	First year appear Finding	Findings	CFDA Number	Corrective Action	Status	Responsible Functionary And Contact Number
			<p>activities.</p> <ul style="list-style-type: none"> <li>We noted that the SRD's payroll subsidiary ledgers are not reconciled with the PRIFAS' GL-015 report received from the Puerto Rico Department of the Treasury. Accordingly, existing policies and procedures do not ensure: 1) that subsidiary ledgers are being reconciled properly; 2) that reconciliations are reviewed by supervisory personnel, and 3) the detection, on a timely basis, of any significant adjustment that may be material to the financial statements.</li> </ul>				

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COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT  
STATUS OF PRIOR YEAR AUDIT FINDINGS  
SINGLE AUDIT FOR THE YEAR ENDING ON JUNE 30, 2010

Finding Number	Year finding repeated	First year appear Finding	Findings	CFDA Number	Corrective Action	Status	Responsible Functionary And Contact Number
09-02	2009	2008	<p><u>PARTICIPATION OF PRIVATE SCHOOL CHILDREN</u></p> <p>Federal program</p> <p>21<sup>st</sup> Century Community Learning Centers</p> <p>Category</p> <p>Compliance / Internal control</p> <p>Compliance requirement</p> <p>Special tests and provisions – Participation of private school children</p> <p>Condition found</p>	84.287	Appropriate measures are been taken in order to correct this condition and comply with the program requirements. Constant communication with the Department of Education personnel is taking place in order to implement the proper structure that provides the required documentation.	Partially Completed  To be completed during 2010-2011 fiscal year.	<p>Mr. Ángel Sub-Secretary (787) 721-8271</p> <p>Mr. Oscar Hernández 21<sup>st</sup> Century Comm. Learning Center Program Director (787) 721-2800 Ext.1229</p>

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COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT  
STATUS OF PRIOR YEAR AUDIT FINDINGS  
SINGLE AUDIT FOR THE YEAR ENDING ON JUNE 30, 2010

Finding Number	Year finding repeated	First year appear Finding	Findings	CFDA Number	Corrective Action	Status	Responsible Functionary And Contact Number
			<p>We noted that for the Twenty-first Century Community Learning Centers program the Sport and Recreation Department of the Commonwealth of Puerto Rico (SRD) accounting records (PRIFAS) are not sufficiently expanded to account for the relative share of enrolled students in public and private schools.</p> <p>Accordingly, we were unable to determine if for this program the expenditures were equal on a per-pupil basis for students in public and private schools. This condition arises because the SRD recorded the funds distributed to public and private schools students, teachers and other educational personnel in a single account.</p>				

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# CORRECTIVE ACTION PLAN

COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT

CORRECTIVE ACTION PLAN  
SINGLE AUDIT FOR THE YEAR ENDING ON JUNE 30, 2010

Finding Number	Year finding repeated	First year appear Finding	Findings	CFDA Number	Corrective Action	Status	Responsible Functionary And Contact Number
10-01	2005 2006 2007 2008 2009	2004	<p><u>ACCOUNTING RECORDS</u></p> <p>Category</p> <p>Internal control</p> <p>Compliance requirement</p> <p>Special tests and provisions</p> <p>Condition found</p> <p>During our audit procedures for the fiscal year ended June 30, 2008, we noted that the Sports and Recreation Department (SRD) did not maintain a general ledger to integrate the subsidiary ledgers</p>	14.850 84.287	We are in the final phase of implementing the MIP "Fund Accounting" System. We expect the condition to be correct once the system implementation is complete.	Partially Completed Expected to be completed during the 2010-2011 fiscal year.	<p>Mr. Juan Ríos, Administration Auxiliary Secretary (787) 728-1927</p> <p>Mrs. Maria C. Ortiz Navarro, Finance Division Director (787) 721-9149</p> <p>Mr. Eric Rivera, Auxiliary, Budget and</p>

*Henry J. ...*

Principal Functionary Signature or Respective Representative

2/14/11

Date

COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT

CORRECTIVE ACTION PLAN  
SINGLE AUDIT FOR THE YEAR ENDING ON JUNE 30, 2010

			<p>of its governmental fund types. Accordingly, the SRD was unable to prepare monthly financial statements. Monthly financial statements are necessary to assess the SRD's financial position, which is imperative to enable timely, effective, and efficient management decisions.</p> <p>Additionally, the SRD did not maintain adequate budgeting policies and procedures, and had inappropriate and/or incomplete cut-off procedures, as well as incomplete month-end and year-end closing procedures. The Treasury Department of the Commonwealth of Puerto Rico provides accounting services to the SRD through their accounting system (PRIFAS). The following deficiencies related to the accounting procedures and financial reporting practices were noted during our audit:</p> <ul style="list-style-type: none"> <li>• Our review of the procedures followed regarding the use of the budget as a control tool revealed that budget versus actual comparisons were not prepared to evaluate SRD's performance. The financial management system shall establish a relation of financial</li> </ul>			<p>Planning Office Auxiliary Director (787) 721-9184</p>
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COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT

CORRECTIVE ACTION PLAN  
SINGLE AUDIT FOR THE YEAR ENDING ON JUNE 30, 2010

			<p>information with performance or productivity data, including the production of unit cost information whenever appropriate. A budget is a plan for the future operations of an organization. It is based on experience and management's intentions or expectations of future conditions that will affect the entity. It allows management to plan the actions necessary for achieving desired or anticipated results. The SRD's record-system should provide a mechanism to ensure that costs do not exceed the budgeted level for each program activity or other budget category.</p> <p>The record-system must maintain cumulative expenditures, provide information for comparison of budgeted and actual costs and determine amounts available for future expenditures. As an additional step in grantee resource management, SRD's officials should periodically review the status of planned expenditures. If a function or activity does not require the amount originally budgeted and the Federal agency or the terms of the grant agreement permit, the balance can be</p>				
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COMMONWEALTH OF PUERTO RICO  
SPORTS AND RECREATION DEPARTMENT

CORRECTIVE ACTION PLAN  
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10-02	2005 2006 2007 2008	2004	<p>reallocated to other activities.</p> <ul style="list-style-type: none"> <li>We noted that the SRD's payroll subsidiary ledgers are not reconciled with the PRIFAS' GL-015 report received from the Puerto Rico Department of the Treasury. Accordingly, existing policies and procedures do not ensure: 1) that subsidiary ledgers are being reconciled properly; 2) that reconciliations are reviewed by supervisory personnel, and 3) the detection, on a timely basis, of any significant adjustment that may be material to the financial statements.</li> </ul>	14.850	<p>Appropriate measures are taking place in order to comply with the requirements presented for this situation, which the auditors interpreted by the criteria applied that we should provide additional evidence for the contract procedures. Nonetheless, the Housing and Urban Department properly approved the transactions questioned in this</p>	<p>Completed</p>	<p>Mr. Juan Ríos, Administration Auxiliary Secretary (787) 728-1927</p> <p>Mrs. Maria C. Ortiz Navarro, Finance Division</p>
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		<p><b>Compliance requirements</b></p> <p>Procurement and suspension and debarment</p> <p><b>Condition found</b></p> <p>In testing compliance and internal controls over cost allow ability and procurement and suspension and debarment requirements, we selected 113 disbursements from the programs 14,850 (Public and Indian Housing) and 84,287 (21<sup>st</sup> Century Community Learning Center) listed below (excluding those related to payroll and fringe benefits expenditures) that totaled \$2,171,713.</p> <p>The legend of the exceptions noted is as follows:</p> <p><b>A.</b> Quote, bid or proposal was not available for examination.</p> <p><b>B.</b> No evidence as to compliance with Suspension and Department requirements was found.</p> <p>For program Public and Indian Housing Program</p>	<p>finding before they were executed.</p>	<p>Director (787) 721-9149</p> <p>Mr. Jorge Torres Zone Press Program Director (787) 396-8383</p> <p>Mr. Oscar Hernández, 21<sup>st</sup> Century Comm. Learning Center Program Director (787) 721-2800 Ext.1229</p>
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(CFDA No. 14.850), we noted the following:

Voucher Number	Voucher Date	Amount		Questioned Cost	
		A	B	A	B
10004379	12/10/2009	55,000	X	X	55,000
10006058	3/25/2010	105,912	X	X	105,912
			2	2	\$ 160,912

The exceptions mentioned above are the result of:  
a) deficiencies of the filing system, which does not provide for immediate identification or retrieval of payment documents; and b) the failure to implement adequate internal control procedures, such as thorough managerial review, which should detect and correct, on a timely basis, instances where controls are not been followed.

**Criteria**

24 CFR Sections 85.36, 34 CFR Sections 80.36 (b) (1) and 36 (b) (1) of the OMB Common Rule

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			<p>establish that grantees and sub grantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. The Acquisition Rulings of the SRD establish, among others, the following policies and procedures:</p> <ul style="list-style-type: none"> <li>• Purchases up to \$500 – The Purchaser shall obtain by phone at least three quotes from potential vendors. This procedure must be documenting it with a Record of Bids (Form SC-1052.)</li> <li>• Purchases over \$500 up to \$2,500 – The Purchaser shall obtain at least three quotes with a written confirmation from potential vendors before the issuance of a purchase order. This procedure must also be documenting it with a Record of Bids (Form SC-1052.)</li> </ul>				
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			<ul style="list-style-type: none"> <li>• Purchases over \$2,500 up to \$10,000 – The Purchaser shall obtain at least three written quotes from potential vendors before the issuance of a purchase order. This procedure must also be documented with a Record of Bids (Form SC-1052.)</li> <li>• Purchases over \$10,000 up to \$30,000 – An informal bid shall be performed to ensure the highest number of potential bidders. The Purchaser shall send an Invitation for Informal Bid with the corresponding terms and specifications.</li> <li>• Purchases over \$30,000 – A formal bid shall be performed to ensure the highest number of potential bidders. The Purchaser shall send an Invitation for Formal Bid with the corresponding specifications. The related forms must be submitted to the Bidding Board.</li> </ul> <p>24 CFR Section 85.36 (d) (1) and 34 CFR Section 80.36 (4) (d) (1) states that small purchase procedures are those relatively simple and</p>				
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			<p>informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.</p> <p><b>Effect</b></p> <p>Since state policies and procedures were not followed and federal regulations were not met, the SRD did not provide for full and open competition because none of the disbursements listed above were supported with justifiable rationale to limit competition. As a result, the SRD could be required to reimburse federal funds to the grantor agency for the expenditures incurred for not following the corresponding procurement policies and procedures.</p> <p><b>Questioned costs</b></p> <p>\$160,912 CFDA 14.850 Public and Indian Housing Program</p>				
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10-03	2007	2006	<p><b>Recommendation</b></p> <p>We recommend the SRD to enforce its procurement policies and procedures to conform to federal laws and regulations and provide adequate training to employees regarding each program requirements and proper procurement and disbursement procedures.</p> <p><b>CASH MANAGEMENT</b></p> <p><b>Federal program</b></p> <p>CFDA 84.287 Twenty – first Century Communi</p> <p><b>Category</b></p> <p>Compliance / Internal Control</p> <p><b>Compliance requirement</b></p> <p>Cash Management</p>	84.287	<p>The program administration has responded appropriately in order to minimize the time elapse between the receipt and disbursement of the funds belonging to the 21<sup>st</sup> Century Community Learning Center Program.</p>	Completed	<p>Mr. Angel Toro, Sub-Secretary (787) 721-8271</p>
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			<p><b>Condition found</b></p> <p>The SRD does not have a formally structured cash management system to effectively manage the timing between the receipt of federal funds and the ultimate disbursement of these funds. We tested fifty-eight (58) disbursements related to the Twenty – first Century Community Learning Centers to determine compliance with cash management requirements.</p> <p>The conditions indicated below are the result of deficiencies in the cash request documentation procedures related to the Twenty – first Century Community Learning Centers. The basis for making requests of federal funds to the grantors is not based upon an accurate and reliable determination of actual cash needs. Also, cash request forms are not being thoroughly reviewed by the SRD supervisors to ensure that they are prepared following the federal guidelines and provide for the minimization of the time elapsed between the receipt of funds and their ultimate disbursement.</p>			<p>Mr. Oscar Hernández, 21<sup>st</sup> Century Comm. Learning Center Program Director (787) 721-2800 Ext.1229</p> <p>Mrs. Maria C. Ortiz Navarro, Finance Division Director (787) 721-9149</p>
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Voucher Number	Voucher Date	Check Number	Check Date	Check Amount	Date Cleared	Request Number	Request Date	Amount Requested	Receipt Voucher Number	Receipt Voucher date	Days Elapsed between funds deposit and payment
10AF3062	8/18/2009	0322888	8/10/2009	\$3,255	12/14/2009	2009-003	9/14/2009	\$247,925	00155280	11/2/2009	15
10065578	12/08/2009	02540103	9/21/09	1,578	2/19/2010	2009-003	9/14/2009	\$247,925	00155280	11/2/2009	81
<b>Criteria</b>											
<p>Part 3 of the Compliance Supplement establishes that when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before the reimbursement is requested from the Federal Government.</p> <p>Paragraph 2 (a) of the OMB Circular A-102, Section 21 (b) of the Common Rule, and Section 22 of the OMB Circular A-110 establish that agency methods and procedures for transferring funds shall minimize the time elapsing between the transfer to recipients of grants and disbursement by the grantee or sub grantee, in accordance with Treasury regulations at 31 CFR Part 205.</p>											
31 CFR 205.33 establishes that a State must											

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			<p>minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management practices in regard to funds transfers to sub grantees in accordance with OMB Circular A-102.</p> <p><b>Effect</b></p> <p>The ability to manage federal awards in compliance with laws, regulations, and provisions of contracts and grant agreements could be questioned.</p> <p><b>Questioned costs</b></p>				
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10-04	2009	2008	<p>None</p> <p><b>Recommendation</b></p> <p>The SRD shall request from the federal grantor only the actual costs paid for its own funds before the reimbursement is requested to the grantors. To meet this objective, the SRD should establish more reliable and thorough cash management procedures and subjecting such cash management to the formal review and approval of its management.</p> <p><b><u>PARTICIPATION OF PRIVATE SCHOOL CHILDREN</u></b></p> <p>Federal program</p> <p>21<sup>st</sup> Century Community Learning Centers</p> <p><b>Category</b></p> <p>Compliance / Internal control</p>	84,287	<p>The program administration is responding appropriately in order to provide documentation that evidences the action taken by the program personnel to recruit private school students and their acceptance or rejection, or the proper distribution of funds accordingly to public and private school students</p>	Partially Completed	
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		<p><b>Compliance requirement</b></p> <p>Special tests and provisions – Participation of private school children</p> <p><b>Condition found</b></p> <p>We noted that for the Twenty-first Century Community Learning Centers program the Sport and Recreation Department of the Commonwealth of Puerto Rico (SRD) accounting records (PRIFAS) are not sufficiently expanded to account for the relative share of enrolled students in public and private schools.</p> <p>Accordingly, we were unable to determine if for this program the expenditures were equal on a per-pupil basis for students in public and private schools. This condition arises because the SRD recorded the funds distributed to public and private schools students, teachers and other educational personnel in a single account.</p>	<p>participation. However, no private school student registered in the program to receive the services during the year 2010.</p>	<p>Mr. Angel Toro, Sub-Secretary (787) 721-8271</p> <p>Mr. Oscar Hernández, 21<sup>st</sup> Century Comm. Learning Center Program Director (787) 721-2800 Ext.1229</p>
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