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January 21, 2011

José Pérez Riera
President
Board of Directors of
Puerto Rico Convention Center District Authority
PO Box 19269
San Juan, PR 00910-1269

Dear Members of the Board of Directors:

We have performed an audit of the financial statements of Puerto Rico Convention Center District Authority (the "Authority") as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated January 21, 2011.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Authority is responsible.

Our Responsibility under Generally Accepted Auditing Standards

Our responsibility under generally accepted auditing standards has been described in our engagement letter dated February 26, 2010. As described in that letter, the objective of a financial statements audit conducted in accordance with generally accepted auditing standards is to express an opinion on the fairness of the presentation of the Authority's financial statements for the year ended June 30, 2010, in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects. Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Board of Directors are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Directors of their responsibilities.

We considered the Authority's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Authority's 2010 financial statements, include the allowance for doubtful accounts and accrued expenses. We understand that management of the Authority has provided you with details regarding the process used in formulating these estimates. The basis for our conclusions as to the reasonableness of these estimates when considered in the context of the financial statements taken as a whole, as expressed in our auditors' report on the financial statements, is our understanding and testing of the procedures used by management to develop the estimates and/or our consideration of the effect of subsequent events on the accounting estimates. During the year ended June 30, 2010, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

Uncorrected Misstatements

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. There were no uncorrected misstatements or disclosure items passed identified during our audit.

Material Corrected Misstatements

The following material misstatements were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period:

- The Authority has an account receivable from the Department of Economic Development and Commerce of Puerto Rico (DEDC) related to the San Juan Water Front Project. As of the January, 21, 2011, date the financial statements were available to be issued, the DEDC was in the process of reassigning the interagency agreement and uncertainty existed about the collectibility of the Authority's receivable. Based on the available information, the Authority recorded a reserve against the account receivable amounting to approximately $2,752,000.

- The Authority had a Purchase and Sale Development Agreement with Parcel Development Group, Inc. for the sale of Parcel D. A deposit of approximately $1,400,000 was received in September 2007 as a guarantee for the seller. The agreement closing date was extended to December 31, 2009, but the transaction never took place. After further analysis of the transaction, the Authority recognized as other income the whole deposit amount.

Such adjustments have been recorded in the accounting records and are reflected in the 2010 financial statements.

Significant Accounting Policies

The Authority's significant accounting policies are set forth in Note 1 to the Authority's 2010 financial statements. During the year ended June 30, 2010, there were no significant changes in previously adopted accounting policies or their application.

Disagreements with Management

We have not had any disagreements with management related to matters that are material to the Authority's 2010 financial statements.

Consultation with Other Accountants

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2010.

Significant Difficulties Encountered in Performing the Audit

During the course of our audit, we encountered some difficulties in dealing with management related to the performance of the audit, including (1) failure by the Authority's personnel to complete schedules and/or accounts analyses on a timely basis and (2) significant delay in the receipt of financial statement draft from management. These factors led to the late issuance of the Authority's financial statements for the year ended June 30, 2010.

Management's Representations

We have made specific inquiries of the Authority's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Authority is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix A, a copy of the representation letter we obtained from management.

Control-Related Matters

We have identified, and included in Appendix B, certain matters involving the Authority's internal control over financial reporting that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants.

We have also identified, and included in Appendix B, other deficiencies involving the Authority's internal control over financial reporting as of June 30, 2010, that we wish to bring to your attention.

The definitions of a deficiency, a material weakness, and a significant deficiency are also set forth in Appendix B.

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This report is intended solely for the information and use of management, the Board of Directors, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Yours truly,

Deloitte & Touche LLP

cc: The Management of Puerto Rico Convention Center District Authority

January 21, 2011

APPENDIX A

Deloitte & Touche, LLP
Torre Chardón
350 Avenue Suite 700
San Juan, PR 00918-2140

We are providing this letter in connection with your audit of the balance sheet of the Puerto Rico Convention Center District Authority (the "Authority"), a component unit of the Commonwealth of Puerto Rico, as of June 30, 2010 , and the related statements of revenues, expenses, and changes in net assets, and of cash flows for the year then ended for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the respective financial position, results of operations, and cash flows of the Authority in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the following:

a. The fair presentation in the basic financial statements of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities;

b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, and any additional information accompanying the financial statements that is presented for the purpose of additional analysis of the basic financial statements;

c. The design and implementation of programs and controls to prevent and detect fraud;

d. Establishing and maintaining effective internal control over financial reporting.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with GAAP, as applicable to governmental entities.

2. The Authority has made available to you all:

   a. Financial records and related data;

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b. Minutes of the meetings of directors and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. There has been no communication from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

4. The Authority has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud.

5. We have no knowledge of any fraud or suspected fraud affecting the Authority involving:

   a. Management;

   b. Employees who have significant roles in internal control over financial reporting;

   c. Others if the fraud could have a material effect on the financial statements.

6. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority received in communications from employees, former employees, analysts, regulators, short sellers, or others.

7. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*).

Except where otherwise stated below, matters less than $878,900 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

8. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

9. The Authority has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

10. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:

    a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral);

    b. Guarantees, whether written or oral, under which the Authority is contingently liable.

11. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events;

b. The effect of the change would be material to the financial statements.

12. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:

    a. The concentration exists at the date of the financial statements;

    b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact;

    c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

13. There are no:

    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency;

    b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*).

14. Except as disclosed in Note 2 to the basic financial statements, the Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

15. We confirm that restricted assets represent the amounts deposited by the Authority to provide for the amortization of bond payable and related interest costs and cash available in the related construction fund.

16. The Authority has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition,* GASB Statement No. 59, *Financial Instruments Omnibus*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, as discussed in Note 2 to the basic financial statements. The Authority is therefore unable to disclose the impact that adopting such statements will have on its financial position, results of operations, and cash flows when such statements are adopted.

17. The Authority completed the process of evaluating the impact that resulted from adopting GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* GASB Statement No. 53, *Accounting and Reporting for Derivative Instruments*, GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards,*

as discussed in Note 2 to the basic financial statements. The adoption of these Statements did not have an impact on the Authority's financial position and results of operations.

18. The Authority has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.

19. We have complied with the provisions of the Trust Agreement between the Authority and Bank of New York, and the Investment Agreement between the Authority and Citigroup Financial, both dated March 24, 2006, regarding allowed investment alternatives and collateralization requirements.

20. We confirm that the Authority has evaluated its capital assets as required by GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and no impairment was identified during the year ended June 30, 2010.

21. We confirm that the Authority accounts for room tax revenues and transfer of land and funds from other governmental entities under provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions.*

22. No events have occurred after June 30, 2010 but before January 21, 2011, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

23. Management has disclosed whether, subsequent to June 30, 2010, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses have occurred.

24. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the basic financial statements.

25. During the year ended June 30, 2010, the Authority reserved a receivable from other governmental entity of approximately $2,742,000 due to the uncertainty of its collection.

26. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.

27. We confirm that deferred revenues associated with long term agreements are deferred and recognized using the straight-line method over the term of the agreement.

28. We confirm that any non-monetary consideration presented in the basic financial statements is measured at fair value based on the current rates applicable to the Authority.

29. Costs associated with the issuance of bonds are capitalized in the respective bond issues and amortized over the term of the bonds.

30. We confirm that during the year ended June 30, 2010, the Authority's revenues related to the room taxes amounted to approximately $35,367,000 in relation to the debt services

certified by the Board of Directors of the Puerto Rico Tourism Company and the funds for the administration and operating deficit.

31. During the year ended June 30, 2010, the Authority recognized as other income an escrow deposit of approximately $1,400,000. The non reimbursable escrow deposit was received in connection with a Purchase and Sale and Development agreement signed with a third party in September 2007. Said agreement included a purchase option for a parcel of land. The term to execute such option expired and renewal was not granted.

32. We have disclosed to you all new or changes to the existing defined contribution plan.

33. We have no intention of terminating any of our pension or 401(k) plans or taking any other action that could result in an effective termination or reportable event for any of the plans. We are not aware of any occurrences that could result in the termination of any of our pension or 401(k) plans to which we contribute.

Jaime A. López-Díaz, Executive Director

Orlando Colón, Comptroller

Miguel Tulla, Deputy Executive Director, Coliseo de P.R.

For the purpose of this Appendix, Puerto Rico Convention Center District Authority (the "Authority") is comprised of: (1) Convention Center District Authority (the "District"), (2) Puerto Rico Convention Center ("PRCC"), and (3) the Coliseum of Puerto Rico (the "Coliseum"). The observations and recommendations detailed below mention the specific entity or entities to which they are related.

SECTION I — SIGNIFICANT DEFICIENCIES

We consider the following deficiencies in the Authority's internal control over financial reporting to be significant deficiencies as of June 30, 2010:

Journal Entry Posting

Observation — Various manual journal entries of the Coliseum selected for testing were not signed as evidence of management review.

Recommendation — We recommend the Authority to implement formal procedures to assure that each journal entry (with supporting documentation attached) is reviewed and approved by appropriate personnel prior to posting it to the general ledger. The established procedures must be followed by SMG personnel engaged in the accounting of the Coliseum and PRCC.

Cash

Observation — Some bank reconciliations of the District and PRCC do not include signatures as evidence of preparation and subsequent management review.

Recommendation — We recommend the Authority to implement formal procedures to ensure that all accounts' reconciliations are reviewed and approved by an appropriate level professional such as the Controller, General Manager or Deputy Executive Director, as applicable. Evidence of such review will be indicated by initials on the reconciliation. The established procedures must be followed by SMG personnel engaged in the accounting of the Coliseum and PRCC.

Allowance for Doubtful Accounts

Observation — The District does not have formal policies and procedures in place with respect to estimating and recording an allowance for doubtful accounts. During our audit, we noted that receivables were not properly analyzed for collectability. Some balances were adjusted and/or reserved at year end including the receivable from the DEDC.

Recommendation — Management should implement appropriate procedures to record and timely analyze the allowance for doubtful accounts. These procedures may include, but not be limited to, reviewing the Authority's accounts receivable aging report on a monthly basis, discussing specific customers' accounts with the credit and collections department to identify accounts for which collection is doubtful, and monitoring accounts receivable statistics for significant fluctuations. The established procedures must also be followed by SMG personnel engaged in the accounting of the Coliseum and PRCC.

Property, Plant and Equipment (PP&E)

Observation — While auditing the PP&E balances of the Coliseum, we observed purchases posted after year end with effective dates prior to year ended. This represents a lack of effective monitoring procedures to ascertain that PP&E additions in the Coliseum are recorded in the District's general ledger on a timely basis.

Recommendation — We recommend the Authority to constantly monitor the Coliseum to ensure that all PP&E additions are informed to the District on a timely basis for proper recording in the general ledger. This is applicable to SMG personnel engaged in the accounting of the Coliseum and PRCC.

Observation — While auditing the PP&E balances, we noted that for some asset categories (e.g. furniture and fixtures) historical information was not available. This observation applies to PRCC, the Coliseum and the District.

Recommendation — The PRCC, the Coliseum and the District should develop a common Asset Capitalization Policy that should be applied consistently. The trial balances of these entities and, hence, their PP&E balances are combined to conform Authority's financial statement. A common policy will ensure consistent treatment of capital expenditures.

Escrow Deposit

Observation — The District had a Purchase and Sale Development Agreement with Parcel Development Group, Inc. for the sale of Parcel D. The agreement closing date expired and the related deposit was maintained by the District as a liability without further analysis. After discussions with lawyers and other parties involved, the deposit was recognized as other income.

Recommendation — Management should implement procedures to ensure all accounts payable, accrued expenses and deposits are reconciled to the general ledger on a monthly basis. Significant discrepancies noted should be investigated and resolved timely. Deposits need to be analyzed taking into consideration the whole circumstances of the related contract. All reconciliations must be reviewed and approved by an appropriate level professional. Evidence of such review will be indicated by initials on the reconciliation.

Advance Deposits Arena

Observation — Advance deposits accounts' reconciliations of the Coliseum do not include signatures as evidence of preparation and subsequent management review. This is a recurrent deficiency noted during our prior year audit.

Recommendation — We recommend the Coliseum to implement formal procedures to ensure that all accounts' reconciliations are reviewed and approved by an appropriate level professional such as the Controller or General Manager. Evidence of such review will be indicated by initials on the reconciliation.

Revenues

Observation — While auditing PRCC revenues related to food and beverage we noted that services related to an event performed from October 27, 2009 to November 3, 2009, were not invoiced to customer until February 24, 2010. This could represent a cut off issue due to time elapsed between performance of services and its related invoicing date.

Recommendation — We recommend management to develop a formal process in order to identity and monitor unbilled revenue and to ensure that revenue is recognized during the appropriate period following generally accepted accounting principles.

SECTION II — OTHER DEFICIENCIES

We identified the following other deficiencies involving the Authority's internal control over financial reporting as of June 30, 2010 that we wish to bring to your attention:

Property, Plant and Equipment

Observation — The Assets Capitalization Policy of PRCC and the Coliseum differs from the one established by the District. The Assets Capitalization Policy of PRCC and the Coliseum defines capital assets as any purchase of furniture, fixtures, machinery and equipment having an original cost per item of $2,500 or more and an expected useful life of more than one year. The capitalization policy of the District defines capital assets as those assets with an original cost in excess of $1,000 and an expected useful life of more than one year.

Recommendation — PRCC, the Coliseum and the District should develop a common Asset Capitalization Policy that should be applied consistently. The trial balances of the entities and, hence, their property, plant and equipment balances are combined to conform Authority's financial statement. A common policy will ensure consistent treatment of capital expenditures.

Information Security — User Access Reviews

Observation — There is no formal policy or procedure established for system and application owners to review the nature and extent of user access privileges to ensure that all such users are pertinent and that such access privileges remain appropriate.

Recommendation — We recommend the Authority to develop security administration policies and procedures requiring that system and application owners periodically review all user access privileges for ongoing pertinence.

Observation — We noted that users share one user ID to gain access to the Tangent application. Inadequate authentication procedures may lead to financial loss and operational damage through unintentional or deliberate unauthorized access, alteration, and use of information resources which is possible when users have access to more than one device at a time or are not held accountable via unique IDs.

Recommendation — The Authority should enforce its policies and procedures regarding the authentication of users. The Authority should also emphasize the value of the entity's information and operations by making it Authority policy that users are accountable for their own transactions while accessing the application.

Information Security — Logical Security Settings

Observation — Even though the Authority has established and formally documented a policy regarding standard or minimum password settings for operating systems, applications, and databases, such policy does not establish or require configuration of password minimum length and user lockout threshold. Also, the password history value of one password remembered is not set to recommended practices minimum security values.

In addition, some of the Authority's operating system and application's logical security settings are not in accordance with the Authority's password policy or not set to recommended practices minimum security values and may not promote optimal security. Among the exceptions noted are the following:

- Peachtree at PRCC and the Coliseum, Micros at PRCC, and Tangent at the Coliseum – These applications' password minimum length, periodic password change, user lockout threshold, password history, and password complexity settings are not available for configuration due to application functionality limitations.

- The ADP application's password minimum length value of four characters is not set to recommended minimum values. In addition, the periodic password change, user lockout threshold, password history, and password complexity settings are not available for configuration due to application functionality limitations.

- The Windows operating system's password history setting is not configured/enforced (e.g., set to "0") at the Coliseum.

Recommendation — We recommend the Authority to modify its current policy to define, implement, and enforce additional recommended practice minimum security values, including password minimum length, user lockout threshold, and password history. The policy should be implemented across all operating systems, applications, and databases and should at a minimum include the following recommended minimum logical security authentication parameters:

- A minimum password length of six characters or greater,
- An account lockout threshold of three to five failed log-on attempts before lock out,
- A password expiration interval of 30 to 90 days,
- A password history setting of six or greater.

Furthermore, we recommend enabling password complexity for existing systems and applications where possible.

System Change Control — Change Control Management

Observation — We noted that documentation to support the change control management process, including test plans, user acceptance, etc. was not available or maintained. Failure to implement or enforce appropriate change controls can result in unauthorized system changes, operational disruptions, degraded system performance, or compromised security. Development/test environments are not currently available for PRCC and the Coliseum.

Recommendation — We recommend the Authority to maintain documentation supporting test results, including resolution of problems encountered as well as enforce procedures for testing updates or upgrades to applications, databases, or operating systems on a separate development/test environment prior to their implementation on live environments. Change control is critical to have highly reliable systems that meet the defined service levels of the organization and should be formalized to incorporate security, testing, and documentation. It is necessary that each change be controlled throughout its life cycle and integrated into the production environment in a systematic and controlled manner. The primary objective is to maintain the integrity and reliability of the production environment, while making changes for the user community.

SECTION III — OTHER MATTERS

Our observations concerning other matters related to best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

Information Systems Policies and Procedures

Observation — Even though the Authority has developed policies and procedures related to the Information Systems Operations, Information Security, and Change Control areas, such policies and procedures have not been revised and/or updated during the fiscal year or since inception and therefore may not reflect changes in the Authority's processes.

Recommendation — We recommend the Authority to review and update its current set of information systems policies and procedures in order to reflect changes in the processing environment. Updated policies and procedures should be formally approved, communicated, and distributed to end-users.

Data Center and Network Operations — Business Continuity and Disaster Recovery Planning

Observation — The Authority has not reviewed or updated its business continuity and information systems disaster recovery plans since 2006 for their main location (i.e., Netwave) and tests of the business continuity and disaster recovery plans have not been performed. As of June 30, 2010, we noted that the Authority was in negotiation with Hewlett-Packard to perform a Business Impact Analysis in order to update its existing BCP as well as its DRP.

In addition, the Authority has not formally developed or established the following related to PRCC and the Coliseum locations:

- A formally documented, company-wide Business Continuity Plan (BCP) in order to allow for the timely recovery of essential business processes and information systems in the event of a disaster or other disruption.

- An Information Systems Disaster Recovery Plan as a component of the BCP.

- Regular tests of such recovery procedures.

- Alternate processing arrangements, contracts, or agreements allowing for off-site restoration of critical computer processing.

Recommendation — We recommend the Authority to review its business continuity and information systems disaster recovery plans and conduct periodic information systems disaster recovery tests. Disaster recovery plans are essential for business continuity and they should be tested on a regular basis. Regular and proactive testing approaches are essential for disaster recovery success.

We also recommend the Authority to conduct, develop, and/or document the following for PRCC and the Coliseum locations:

- A Business Impact Analysis (BIA) to define the most critical business processes, resources, and related systems.

- A comprehensive BCP based on the BIA, addressing each main office, as well as other facilities, external parties, etc.

- Regular BCP testing and BCP updates to reflect the results of such tests.

SECTION IV — DEFINITIONS

The definitions of a deficiency, a material weakness, and a significant deficiency that are established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, are as follows:

A *deficiency* in internal control over financial reporting 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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