

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

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2011

Torres Blompart, Sánchez Ruiz LLP

Certified Public Accountants and Business Consultants

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

**SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2011**

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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, 2011. 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, 2011, in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards* we have also issued our report dated February 21, 2012, 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.

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Honorable Henry Newmann Zayas
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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.

Torres Blompart, Sánchez Ruiz LLP

February 21, 2012
License No. 221
San Juan, Puerto Rico

The stamp number 2633451 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, 2011

<u>Program</u>	<u>State funds</u>		<u>Federal funds</u>		<u>(Totals Memorandum only)</u>	
	<u>Receipts</u>	<u>Disbursements</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Receipts</u>	<u>Disbursements</u>
Management and Administration	\$ 5,710,145	\$ 5,598,953			\$ 5,710,145	\$ 5,598,953
Physical Infrastructure	16,233,007	16,097,996			16,233,007	16,097,996
Sports Development and Promotion	7,634,184	7,513,987	\$2,350,458	\$5,423,171	9,984,642	12,937,158
Joint Resolutions, Special Accounts and Others	16,181,000	9,507,159			16,181,000	9,507,159
Joint Resolutions, Special Accounts and Others, from prior years	<u>8,531,859</u>	<u>22,266,269</u>			<u>8,531,859</u>	<u>22,266,269</u>
	<u>\$54,290,195</u>	<u>\$60,984,364</u>	<u>\$2,350,458</u>	<u>\$ 5,423,171</u>	<u>\$56,640,653</u>	<u>\$66,407,535</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, 2011

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, 2011

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, 2011

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, 2011, amounted to \$1,282,910 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, 2011

4. COMMITMENTS (CONTINUED)

Rent paid during the fiscal year ended June 30, 2011, under these lease agreements amounted to \$280,196. 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.

COMMONWEALTH OF PUERTO RICO
SPORTS AND RECREATION DEPARTMENT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
CASH ASSISTANCE:		
<u>U.S. Department of Housing and Urban Development / Pass through the Puerto Rico Public Housing Administration</u>		
Public and Indian Housing	14.850	\$ 5,059,095
<u>U.S. Department of Education / Pass through the Puerto Rico Department of Education</u>		
Twenty-first Century Community Learning Centers	84.287	<u>364,076</u>
		<u>\$ 5,423,171</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, 2011

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, 2011. 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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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

We have audited the Statement of Receipts and Disbursements (the Statement) of the Sport and Recreation Department of the Commonwealth of Puerto Rico (the SRD) for the year ended June 30, 2011, and have issued our report thereon dated February 21, 2012. 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.

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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 deficiency described in the accompanying schedule of findings and questioned costs as Finding No. 11-01 to be a material weakness.

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.

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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain other matters that we reported to management of the SRD in a separate letter dated February 21, 2012.

The SRD's response to the finding 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.

Torres Blompart, Sánchez Ruiz LLP

February 21, 2012
License No. 221
San Juan, Puerto Rico

The stamp number 2633452 was
affixed to the original of this report.



Torres Llompart, Sánchez Ruiz LLP

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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

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, 2011. 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.

In our opinion, SRD complied in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding No. 11-01.

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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

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.

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 a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted certain other matters that we reported to management of the SRD in a separate letter dated February 21, 2012.

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

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)

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

February 21, 2012
License No. 221
San Juan, Puerto Rico

The stamp number 2633453 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, 2011

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. A significant deficiency on internal control over financial reporting was identified, which is considered a material weakness.
3. A deficiency on internal control over compliance with requirements applicable to major federal award programs was identified, which was not considered a significant deficiency.
4. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion on the Public Housing and Indian Program (CFDA 14.850) and on the Twenty-First Century Learning Centers Program (CFDA 84.287).
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.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

FINDING NO. 11-01 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, 2011, 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 are 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 (PRDT) 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, 2011

FINDING NO. 11-01 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 expand 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, 2011

FINDING NO. 11-01 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

Cause

The PRDT did not establish effective internal control over the transactions recorded in its accounting records based on the accounting services to be processed through PRIFAS for state and federal funds, since such system has inappropriate as well as incomplete month-end and year-end reconciliation and closing procedures which prevent the timely processing of adjustments and financial statements. Also, the accounting data is not summarized in the form of a double-entry general ledger record since the federal and state funds are maintained separately.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

FINDING NO. 11-01 ACCOUNTING RECORDS (CONTINUED)

Effect

The lack of adequate fiscal control and accounting procedures prevent 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

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.