

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF JUSTICE
FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(WITH THE ADDITIONAL REPORTS REQUIRED BY
THE GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133)



CPA DIAZ-MARTINEZ, PSC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS



Member of: American Institute of Certified Public Accountants (AICPA)
Puerto Rico Society of Certified Public Accountants
Enrolled in the AICPA Peer Review Program Since 1988

This page intentionally left blank.

	Pages
Part I – Financial:	
Independent Auditor's Report.....	2- 4
Financial Statement:	
Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds	5
Notes to Financial Statement.....	6-21
PART II – Schedule of Expenditures of Federal Awards and Reports Required by Government Auditing Standards and OMB Circular A-133:	
Schedule of Expenditures of Federal Awards.....	23-24
Notes to Schedule of Expenditures of Federal Awards	25
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	26-27
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	28-30
PART III – Findings and Questioned Costs:	
Schedule of Findings and Questioned Costs	32-45
Summary Schedule of Prior Audits' Findings	46

This page intentionally left blank.

PART I
FINANCIAL

This page intentionally left blank.



INDEPENDENT AUDITOR'S REPORT

To the Secretary of the Department of Justice of the
Commonwealth of Puerto Rico
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying cash basis financial statement of the **Department of Justice of the Commonwealth of Puerto Rico (Department)**, which comprise Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds for the fiscal year ended June 30, 2013, and the related notes to financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with cash basis of accounting described in Note 2. This includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial 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 financial statement are free of material misstatement. Because of the matters described in the "Basis for Qualified Opinion" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Special Revenue Fund.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the **Department's** preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the **Department's** internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that our audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions.

Basis for Qualified Opinion on Special Revenue Fund

The **Department** does not provide certain documentation related to revenues and disbursements of the special revenue fund for Commonwealth and Federal Grants appropriation. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion on Special Revenue Fund paragraph, the financial statement referred to previously present fairly, in all material respects, the cash receipts and disbursements of the **Department** special revenues fund, and the respective cash basis net changes thereof for the year ended June 30, 2013, in conformity with the basis of accounting described in Note 2.

Unmodified Opinion

In our opinion, the financial statement referred to previously present fairly, in all material respects, the cash receipts and disbursements of the **Department** general fund, and the respective cash basis net changes thereof for the year ended June 30, 2013, in conformity with the basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statement that describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Emphasis of Matters

As discussed in Note 1, the financial statement of the **Department** is intended to present the cash receipts, disbursements, and net changes of the governmental funds of only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the **Department**. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Also, as discussed in Note 7 to financial statement, the **Department** 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 **Department** may be subject to possible federal claims for refunds of grants monies.

INDEPENDENT AUDITOR'S REPORT
Secretary of the Department of Justice of the
Commonwealth of Puerto Rico
Page 3

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effect on the accompanying information of the qualified opinion on the financial statement as described above, the information is fairly stated in all material respects, in relation to the financial statement as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2014 on our consideration of the **Department's** internal control over financial reporting and 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* in considering the **Department's** internal control over financial reporting and compliance.



CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2016

Caguas, Puerto Rico
May 8, 2014

Stamp No. E100055 was affixed to
the original report.

This page intentionally left blank.

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND NET CHANGES – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	Special Revenues Fund	Total Governmental Funds
CASH RECEIPTS:			
Appropriations from the Commonwealth of Puerto Rico	\$124,998,614	\$ 20,352,822	\$145,351,436
Federal Grants	-	8,823,507	8,823,507
Total Cash Receipts	<u>124,998,614</u>	<u>29,176,329</u>	<u>154,174,943</u>
CASH DISBURSEMENTS:			
Legal Consulting and Representation	13,683,024	2,845,616	16,528,640
Management and General Administration	14,109,085	2,841,555	16,950,640
Special Investigations	13,550,872	7,326,781	20,877,653
Families and Minors Affairs Investigation & Prosecution	13,637,915	1,140,411	14,778,326
Criminal Investigation & Prosecution	44,559,059	9,196,574	53,755,633
Compensation & Services to Crime Victims & Witnesses	284,493	5,621,857	5,906,350
Real Property Registry	20,719,270	174,266	20,893,536
Restriction of Antimonopolistic Practices	720,977	1,866,915	2,587,892
Criminal Justice Information System	2,734,885	-	2,734,885
Subtotal	<u>123,999,580</u>	<u>31,013,975</u>	<u>155,013,555</u>
Pass-Through to Governmental Entities	-	7,917,159	7,917,159
Total Cash Disbursements	<u>123,999,580</u>	<u>38,931,134</u>	<u>162,930,714</u>
NET CHANGES	<u>\$ 999,034</u>	<u>(\$ 9,754,805)</u>	<u>(\$ 8,755,771)</u>

This page intentionally left blank.

1. FINANCIAL REPORTING ENTITY

A. Organization

The Department of Justice (Department) is an agency of the Commonwealth of Puerto Rico, as per Article IV, Section 6 of the Constitution of the Commonwealth of Puerto Rico. Its functions and organization are encompassed by the Political Code, 3 L.P.R.A., Section 71 and on other special laws that assign functions, powers and faculties to the Secretary of Justice. The Department's Secretary was designated by the Governor of the Commonwealth of Puerto Rico.

The main functions of the Department include the following: providing legal advice to the Governor, the Legislature, the Municipalities and other governmental agencies of Puerto Rico; representing the Commonwealth of Puerto Rico, its agencies and municipalities in any civil and criminal case before any court, government official or board; investigating and processing before the courts those charged with criminal acts; investigating and processing cases related to minors, including child abuse; representing the public interest in family relations cases; overseeing unlawful practices of business in violation of the antitrust laws; administering the real estate registry; maintaining a criminal justice computerized information system; promoting measures needed to improve public security and fighting crime and the violation of laws.

B. Financial Reporting Entity

The Department is for financial reporting purposes a part of the Commonwealth of Puerto Rico. Because the Department is part, for financial reporting purposes, of the Commonwealth of Puerto Rico, its financial data is included as part of the Commonwealth of Puerto Rico financial statements. The Department accompanying financial statement is issued solely to comply with the Single Audit Act Amendments of 1996 (P.L. 104-156) and for the information and used of the Department's management, and federal awarding agencies and pass-through entities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Statement – Measurement Focus and Basis of Accounting

The Department's accompanying financial statement have been prepared in accordance with the cash basis of accounting, which is a special purpose framework other than generally accepted accounting principles in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. The basis of accounting involves the reporting of only cash and cash equivalents and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) reported in the period in which they occurred.

This cash basis of accounting differs from GAAP primarily because revenue (cash receipts) are recognized when received in cash rather than when earned and susceptible to accrual, and expenditures (cash disbursement) are recognized when paid rather than when incurred or subject to accrual. The amounts reported as cash receipts are those received during the fiscal year 2012-2013. No accrual is recognized.

Capital assets resulting from cash transactions are reported as cash disbursements in the acquiring governmental fund upon cash acquisition. No capital assets are recorded in the Department's financial statement. No long-term debt is reported in the Department's financial statement. No accrued compensated absences are reported in the Department's financial statement. Compensated absences resulting from cash transactions are reported as cash disbursements in the governmental funds column upon cash payment.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The accounts of the Department are organized on the basis of fund types, which are responsible for the coordination, receipt, and management of funds. These are composed of two funds which are described below. The accounts of the Department are accounted for with a set of accounts which only include cash receipts and cash disbursements. No balance sheet accounts are maintained or reported.

The Department reports the following major governmental funds:

- **General Fund** – The general fund is the main operating fund of the Department. It is used to account for all financial resources except those required to be accounted for separately.
- **Special Revenues Fund** – Accounts for the financial resources related to the Special Assignment by the Commonwealth and Federal Grant Awards administered by the Department.

The Department's Special Revenues Fund accounts for the financial resources related to the Special Assignment by the Commonwealth and Federal Grant Awards administered by the Department. Certain special assignments and federal funds received by the Department can be carried over from one fiscal year to subsequent years.

In the normal course of the Department's operations special assignments and federal funds that are received on year can be disbursed on subsequent fiscal years which cause positive or negative changes on the Governmental Funds due to the timing difference within the receipt and disbursements of funds. For the fiscal year ended June 30, 2013, the operations of the Special Revenues Fund resulted on a negative net change due to this timing difference.

Notes to Financial Statement

The notes to financial statement provide information that is essential to a user's full understanding of the data provided in the financial statement.

B. Stewardship, Compliance, and Accountability

Budgetary Information

The revenues recognized in the General Fund consist of appropriations from the Office of Management and Budget of the Commonwealth of Puerto Rico for recurrent and ordinary functions of the Department. The procedures followed in approving the annual budget is as follows:

- a. Between November and December the Department submits to the Office of Management and Budget of the Commonwealth of Puerto Rico an operating budget petition for the fiscal year commencing the following July 1.
- b. At the beginning of the ordinary session of the Legislative Assembly of the Commonwealth of Puerto Rico, the Governor submits a proposed budget for the fiscal year covering the whole operations of the Commonwealth. This proposed budget includes estimated expenditures and the means of financing them.
- c. The annual budget is legally enacted through the approval by the Legislative Assembly of the Joint Resolution of the General Budget. Subsequently to enactment, the Office of Management and Budget of the Commonwealth has the authority to make the necessary adjustments to the budget.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The financial statement is presented at the programmatic level. However, budgetary control and accounting are maintained at a level more detailed to provide the management control in detail of the expenses to the appropriate level of the budget.

Federal grant funds can be carried over a specified amount of time, upon request to, and approval by the federal agencies. The financial statement is presented at the programmatic level. However, budgetary control and accounting is exercised at a lower level providing management with detailed control over expenditures at an appropriated budget level. Budgetary Comparison Schedule is not legally required to do so.

C. Compensated Absences

The vacation policy of the Commonwealth of Puerto Rico that applies to the Department's employees provides for the accumulation of 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed at the current rate. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed.

D. Risk Financing

The Department is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, injuries to employees' health, and natural disasters. Commercial insurance policies covering such risk are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities and Commonwealth of Puerto Rico instrumentalities. Also, principal officials of the Department are covered under various surety bonds. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Department.

E. Accounting for Pension Costs

The Department accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying financial statement are equal to the statutorily required contributions paid.

For the purpose of applying the requirements of the Codification, the Commonwealth is considered to be the sponsor of the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS), a multiemployer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, in which the employees of the Department participate. The Department is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth. Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013 (see Note 6).

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

F. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following pronouncements that have effective dates after June 30, 2013:

GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement No. 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operational Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 (FY 2013-2014). Earlier application is encouraged.

GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement No. 50, *Pension Disclosure—an amendment of GASB Statements No. 25 and No. 27*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement No. 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement No. 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013 (FY 2013-2014). Earlier application is encouraged.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosure—an amendment of GASB Statements No. 25 and No. 27*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (FY 2014-2015). Earlier application is encouraged.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013 (FY 2014-2015). Earlier application is encouraged.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013 (FY 2013-2014). Earlier application is encouraged.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—and amendment of GASB Statement No. 68*. This Statement eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. To correct this potential understatement, Statement 71 requires a state or local government, when transitioning to the new pension standards, to recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions. The provisions are effective simultaneously with the provisions of Statement No. 68, which required to be applied in fiscal years beginning after June 15, 2014 (FY 2013-2014).

The Department has not yet determined the effect these statements will have on the Department's financial statement.

3. CASH WITH FINANCIAL INSTITUTIONS AND WITH FISCAL AGENTS (DEPARTMENT OF THE TREASURY OF THE COMMONWEALTH OF PUERTO RICO)

The funds of the Department are under the custody and control of the Secretary of the Treasury Department of Puerto Rico pursuant to Act No. 230 of July 23, 1974, as amended, known as "Commonwealth of Puerto Rico Accounting Law". The Treasury Department follows the practice of pooling cash equivalents under the custody and control of the Secretary of the Treasury. The funds of the Department in such pooled cash accounts are available to meet its current operating requirements. The Department's cash at June 30, 2013 are demand deposits in the Government Development Bank of Puerto Rico (GDB), and are recorded at cost, which approximates fair value.

continue

4. FUND ADVANCES

The Department receives fund advances from the Treasury Department of Puerto Rico for the interim financing of federal programs, as authorized by Act No. 21 of 1979. This Act establishes that all fund advances made will be reimbursed to the General Fund of the Commonwealth's Treasury as the corresponding federal funds are received. During the fiscal year ended June 30, 2013, no funds were advanced to the Department for this purpose.

5. LEASE COMMITMENTS

The Department is obligated under certain leases accounted for as operating leases. Operational leases not granted property rights or tenant obligations; therefore, neither the assets nor liabilities of leasing arrangements are reflected in the accounting records. Most of the property is leased to the Public Buildings Authority of Puerto Rico, a component unit of the Commonwealth of Puerto Rico of Puerto Rico. Rent paid during the year that ended on June 30, 2013 under these lease agreements amounted approximately to \$3.0 million, that should be approximately the same expenditures in the following five fiscal years.

6. PENSION PLAN

Description of the Plan

Employees of the Department participate in the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Commonwealth under the Act No. 447, approved on May 15, 1951, as amended. ERS covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems.

Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013. Employees participating in the current system (ERS) should be retired as of June 30 2013 in order to obtain the current benefits. Also, Act No. 3 amended the Act No. 305 of September 24, 1999 that's created a Defined Contribution Hybrid Program known as System 2000, incorporating the provisions of the system to Chapter 5 of the ERS. The System 2000 applied to employees joining the ERS on or after January 1, 2000.

Follow are the principal amendment of Act No. 447 by Act No. 3:

Chapter 3 of the Act No. 447, established the following date of retirement:

- (a) General Rule – The first day of the month that coincides with or is subsequent to the date that the participant of the program reaches the age of sixty (60), except as provided in clause (b) of this subsection.
- (b) Public Officers in High-Risk Positions- In the case of Public Officers in High-Risk Positions, it shall mean the first day of the month that coincides with or is subsequent to the date that the Participant reaches the age of fifty-five (55) years. (Public Officers in High-Risk Positions shall mean the Commonwealth of Puerto Rico Police, the Municipal Police, the Commonwealth Firefighter Corps, the Municipal Firefighter Corps, and the Custody Officers Corps.)
- (c) Effectiveness of these provisions: the normal date of retirement established in subsections (a) and (b) of this definition shall be in force until June 30, 2013.

Retirement age for participants who joined public service after June 30, 2013. The retirement age shall be 67 years, except in the case of Public Officers in High-Risk Positions, for whom it shall be fifty eight (58) years.

continue

6. PENSION PLAN – continuation

Participant of the Program

Shall mean, until June 30, 2013, every person for whom the Administrator maintains an account under the Retirement Savings Account Program pursuant to the provisions of Chapter 3 of Act No. 447. Beginning on July 1, 2013, it shall mean every person for whom the Administrator maintains an account under the Defined Contribution Hybrid Program pursuant to the provisions of Chapter 5 of this Act.

The membership of the System shall be constituted by every person who holds a regular position as a career, trust, temporary employee or with probationary personnel status in any executive department, agency, administration, board, commission, office, or instrumentality of the Executive Branch, by the Justices of the Peace, the regular employees and officials of the Judiciary Branch, and by all regular officials and employees of the municipalities, including the mayors. Temporary municipal employees shall not participate in the Retirement System.

Membership in the Retirement System shall be optional for the Governor of Puerto Rico, for all the Secretaries of Government, heads of public agencies and instrumentalities, the Governor's aides, the members of commissions and boards appointed by the Governor, the members of the Legislative Assembly of Puerto Rico, for the employees and officials of the Legislative Assembly of Puerto Rico, the Office of Legislative Services and the office of the Superintendent of the Capitol, and the Comptroller of Puerto Rico. These officials may, at any time, request to be discharged from, or readmitted into the System. The period of services rendered to the Government while separated from the System, shall be credited as creditable service, provided said officials pay the individual and employer contributions, plus interest, that correspond to the period of separation, to the system.

As of July 1, 2013, every employee who is a participant of the System, including mayors, regardless of the date when he/she was first appointed to the Government of the Commonwealth of Puerto Rico, its instrumentalities, municipalities or participating employers of the System, shall become part of the Defined Contribution Hybrid Program.

Notwithstanding the fact that a superannuation retirement annuity is payable for life, if annuitants return to the service, the payment of their annuity shall be suspended. After an annuitant separates from service, payment of the suspended annuity shall resume and he/she shall also have the option to withdraw the contributions made since the date he/she returned to service up until he/she separates from service if, after returning to service, he/she worked less than five (5) years or accrued contributions for less than ten thousand dollars (\$10,000). In the event the annuitant worked five (5) years or more and contributed ten thousand dollars (\$10,000) or more, after returning to service, he/she shall be entitled, after his/her separation from service and after reaching the age established in Section 5-110 of Act No. 447, to receive an additional annuity computed pursuant to Section 5-110 of this Act, on the basis of the contributions made since the date said annuitant returned to service until his/her separation from it.

Annuity for Years of Service

As per Act No. 3, retirement shall be optional for new participants joining the System for the first time after April 1, 1990, as of the date in which they reach the age of sixty-five (65), have completed a minimum of ten (10) years of accredited services and have not requested or received the reimbursement from the accrued contributions. The amount of the annuity shall be one point five percent (1.5%) of the average compensation multiplied by the years of accredited services. However, a minimum pension of five hundred dollars (\$500) per month, effective July 1, 2013, is hereby fixed for those participants who retired in accordance with the provisions of this Chapter 2. Every pensioner who receives a pension of less than five hundred dollars (\$500) per month shall receive, effective July 1, 2013, the increase required for his/her pension to be five hundred dollars (\$500).

continue

6. PENSION PLAN – continuation

Public Officers in High-Risk Positions may voluntarily opt to retire after reaching the age of fifty-five (55) and thirty (30) years of service. Retirement shall be mandatory on the date the participant reaches both thirty (30) years of service and the age of fifty-eight (58). Provided, that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority may grant dispensations authorizing members of this group to work for an additional maximum period of two (2) years performing the functions assigned to them; provided that their health and safety are not compromised. Such a request for dispensation shall be made by the member, not later than ninety (90) days before his/her retirement date. It is hereby provided that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority shall make the necessary regulatory provisions to comply with this Act.

Retirement shall be optional for the members of the System in active service, on and after the date they have attained the age of fifty-five (55) years and have completed at least twenty-five (25) years of creditable service; and for members of the System who having reached the age of fifty-eight (58) years, and have completed at least ten (10) years of creditable service. The members of the Police Corps or the Firefighting Corps shall also have the option to avail themselves of a retirement annuity on and after the date on which they have attained the age of fifty (50) years and have completed at least twenty-five (25) years of creditable service.

Any participant whose separation from the service occurs prior to having attained the age of fifty-eight (58) years, who shall have completed at least ten (10) years of creditable service, and who shall have not applied for, nor received reimbursement of accumulated contributions shall be entitled to receive a deferred retirement annuity. Said participants shall receive a deferred retirement annuity which shall commence upon attaining the age of fifty eight (58) years or after attaining the age of fifty (50) years in the case of policemen or firemen, and fifty-five (55) years in the case of the other participants, if they have completed at least twenty-five (25) years of service in one case or the other.

The amount of the annuity shall be one and one-half percent (1.50%) of the average compensation multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2%) of the average compensation multiplied by the number of years of creditable service in excess of twenty (20) years. Said annuity shall be payable in full to the members who retire at the age of fifty-eight (58) years or more, and to the members of the Police Corps [or] the Firefighting Corps who retire at the age of fifty (50) years or more and who have completed at least twenty-five (25) years of creditable service. The maximum retirement annuity for the participants shall be seventy-five percent (75%) of the average compensation.

The amount of the superannuation retirement annuity of mayors who are participants of the System shall be computed on the basis of the highest salary he/she may have received while discharging his/her government duties in the following manner:

- (1) For services performed as mayor, five percent (5%) of said salary for each year of creditable service up to a maximum of ten (10) years or fifty percent (50%), plus
- (2) For other services performed not included in the above computation, one and one half percent (1.50%) of said salary multiplied by the number of years of such other creditable services up to twenty (20) years, or two percent (2%) of said salary multiplied by the number of years of such other creditable services in excess of twenty (20) years.

The maximum superannuation retirement annuity to be granted under this subsection shall be ninety percent (90%) of the highest salary that the mayor may have received. The payments of the retirement annuity shall begin on and after the date of separation from service, but never before the mayor has attained fifty (50) years of age.

continue

6. PENSION PLAN – continuation

Retirement shall be optional for any participant of the System in active service who shall have completed at least thirty (30) years of creditable service. Said participant shall be entitled to receive the Merit Annuity for thirty (30) years or more of service in accordance with subsections (b) and (c) of this section thereof. Participants of the System under the Coordinating Plan and receiving Social Security benefits, who have not attained sixty-five (65) years of age, shall receive a merit annuity to be computed as provided for hereinafter:

- (1) For those participants who have completed thirty (30) years or more of creditable services and have not attained fifty-five (55) years of age or more, sixty-five percent (65%) of the average compensation.
- (2) For those who have completed thirty (30) years or more of creditable services and have attained fifty-five (55) years of age or more, seventy-five (75%) of the average compensation.
- (3) Years in excess of thirty (30) may only serve as basis to calculate the average compensation

As per Act No. 447 the following provisions shall apply to employees who participate in the System that (i) began to work before January 1, 2000, (ii) as of June 30, 2013, are not participants of the Retirement Savings Account Program established in Chapter 3 of this Act and (iii) as of June 30, 2013, do not meet the requirements of years of service and age to retire that are required in Chapter 2 of this Act:

- (1) New Retirement Age for participants who joined the System for the first time before April 1, 1990. For those participants who, as of June 30, 2013, have not reached the age of 58 and completed at least 10 years of service, or have not reached the age of 55 and completed at least 25 years of service, retirement shall be optional when they meet the following age and service requirements:
 - (i) If, as of June 30, 2013, the participant is 57 years of age, the retirement will be optional when he/she reaches 59 years of age and has completed at least 10 years of service.
 - (ii) If, as of June 30, 2013, the participant is 56 years of age, the retirement will be optional when he/she reaches 60 years of age and has completed at least 10 years of service.
 - (iii) If, as of June 30, 2013, the participant is 55 years of age or less, the retirement will be optional when he/she reaches 61 years of age and has completed at least 10 years of service.
- (2) Retirement Age for participants who joined the System for the first time between April 1, 1990, and December 31, 1999 – For participants who, as of June 30, 2013, have not reached the age of 65 and completed at least 10 years of service, retirement shall be optional when the participant reaches 65 years of age and has completed 10 years of service.
- (3) For Public Officers in High-Risk Positions who began to work before April 1, 1990 and who, as of June 30, 2013, have not reached the age of 50 and completed at least 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.
- (4) For Public Officers in High-Risk Positions who began to work between April 1, 1990, and December 31, 1999, and who, as of June 30, 2013, are not 55 years old and have completed 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.

continue

6. PENSION PLAN – continuation

- (5) Public Officers in High-Risk Positions who separate from active service before meeting the requirements of age and service provided in subsection (a)(3) or (a)(4) of this Section may only receive their accrued pension when they meet the following age and service requirements:
 - (i) If the participant joined the System for the first time before April 1, 1990, after he/she meets the age and service requirements established in subsection (a) 1 of this Section.
 - (ii) If the participant joined the System for the first time between April 1, 1990, and December 31, 1999, after he/she meets the age and service requirements established in subsection (a) 2 of this Section.

Pension Computation

When the participant meets the age and service requirements established above, he/she shall be entitled to receive an annuity computed on the basis of years of service accrued as of June 30, 2013, in accordance with the following rules:

- (i) The average salary of employees who began to work before April 1, 1990, shall be the one established in definition number 15 of Section 1-104 of Act No 447.
- (ii) The average salary of employees who began to work between April 1, 1990, and December 31, 1999, shall be the one established in Section 1-108 of this Act.
- (iii) The pension computation of employees who began to work before April 1, 1990, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2.0%) of the average salary, multiplied by the number of years of creditable service in excess of twenty years, in each case up to June 30, 2013.
- (iv) The pension computation of employees who began to work between April 1, 1990 and December 31, 1999, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to June 30, 2013.
- (v) Participants of the System who, as of June 30, 2013, have availed themselves to the Coordinating Plan and are receiving Social Security benefits will have their annuities adjusted in accordance with the provisions of subsection (e) of Section 2-101 of this Act. Provided that until the participant is entitled to receive the Social Security benefits, he/she may receive an annuity in accordance with Section 5-103 of this Act.
- (vi) This pension shall be received together with the annuity accrued by a participant under Section 5-110 of this Act.

Beginning on July 1, 2013, participants shall not accrue any more years of service for the determination of the average salary and computation of a pension under Section 5-103(a)(4). In addition, participants may not have services not credited recognized, contributions transferred or returned for periods worked before June 30, 2013, except for those exceptions specifically established in Act No 447.

Those participants who began to work on or after January 1, 2000, or those who as of June 30, 2013, were participants in the Retirement Savings Program and who as of June 30, 2013, could retire from service because they are sixty (60) years old, may retire on any later date and they shall be entitled to receive the annuity that could be acquired with the balance of the contributions under the Retirement Savings Account Program and those accrued under the Defined Contribution Hybrid Program.

continue

6. PENSION PLAN – continuation

The savings accounts under the Retirement Savings Account Program of employees who joined the System for the first time on or after January 1, 2000, shall be rolled over to the Defined Contribution Hybrid Program. Be it provided that if, as of June 30, 2013, the employees have not reached the age of sixty (60), they shall be entitled to the annuity established in Section 5-110 of Act No. 447 when they meet the following age requirements:

- (i) If, as of June 30, 2013, the participant is 59 years old, the retirement will be optional when he/she has reached 61 years of age.
- (ii) If, as of June 30, 2013, the participant is 58 years old, the retirement will be optional when he/she has reached 62 years of age.
- (iii) If, as of June 30, 2013, the participant is 57 years old, the retirement will be optional when he/she has reached 63 years of age.
- (iv) If, as of June 30, 2013, the participant is 56 years old, the retirement will be optional when he/she has reached 64 years of age.
- (v) If, as of June 30, 2013, the participant is 55 years old or less, the retirement will be optional when he/she has reached 65 years of age.

For Public Officers in High-Risk Positions who began to work after December 31, 1999, and who, as of June 30, 2013, are not 55 years old, retirement shall be optional when they reach 55 years of age.

Funding Policy

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state of municipal contributions), are established or may be amended by law.

Contributions of Participants of Defined Benefit Program

Contribution requirements are established by law and are as follows:

Complete supplementation plan between ERS and the Federal Social Security	
Hired on or before March 31, 1990	8.275% of gross salary
Coordination plan between ERS and the Federal Social Security	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600
	8.275% of gross salary over \$6,600
Mayors and members of the Police Corps	8.275% of gross salary

Contributions of Participants of Hybrid Program

Contribution requirements are established by law and are as follows:

- (a) Every participant of the Hybrid Program shall compulsorily have to contribute ten percent (10%) of his/her salary while he/she is an employee.

continue

6. PENSION PLAN – continuation

(b) Contributions under the Plan of Coordination with Social Security benefits – The participants of the System who, as of June 30, 2013, have availed themselves to the Plan of Coordination with Social Security benefits shall contribute to the Hybrid Program:

- (1) Effective July 1, 2013, shall contribute seven percent (7%) of their monthly salaries up to five-hundred fifty dollars (\$550) and ten percent (10%) of their monthly salaries in excess of said amount.
- (2) Effective July 1, 2014, shall contribute eight point five percent (8.5%) of their monthly salaries up to five-hundred fifty dollars (\$550) and ten percent (10%) of their monthly salaries in excess of said amount.
- (3) Effective July 1, 2015, shall contribute ten percent (10%) of their full monthly salaries.

The participants of the Program under subsections (a) and (b) of this Section may voluntarily contribute to their account an amount in addition to the one established here. These contributions shall be credited to the contribution account of each participant of the Hybrid Program. The Administrator shall establish the way in which the participants may make additional contributions.

(c) Mandatory Contribution for the Purchase of Disability Insurance – Every participant of the Hybrid Program shall mandatorily contribute to the disability insurance established in Section 5-112 of Chapter 5 of Act No. 447, for which he/she shall have to contribute such sums, fixed in dollars or a percent of the salary, that the Administrator, with the approval of the Board, determines that are needed to provide the disability benefit, provided the contribution required by the Administrator is equal to or less than point twenty five percent (0.25%) of the participant's salary. The contributions made pursuant to this subsection may be credited against and will reduce the contributions that the participant of the Program is bound to pay to the Commonwealth of Puerto Rico Employees Association as provided in Section 8 of Act No. 133 of June 28, 1966, as amended. The contributions made under this subsection shall not be credited to the participant's account.

Employer Contributions to the System (ERS and Hybrid Program)

Every employer shall mandatorily contribute to the System the following:

July 1, 2011	Ten point two hundred seventy-five percent (10.275%) of the salary of each participant
July 1, 2012	Eleven point two hundred seventy-five percent (11.275%) of the salary of each participant

Every employer, beginning on July 1, 2013, shall mandatorily contribute to the System the following:

July 1, 2013	Twelve point two hundred seventy-five percent (12.275%) of the salary of each participant
July 1, 2014	Thirteen point two hundred seventy-five percent (13.275%) of the salary of each participant
July 1, 2015	Fourteen point two hundred seventy-five percent (14.275%) of the salary of each participant

continue

6. PENSION PLAN – continuation

July 1, 2016	Fifteen point five hundred twenty-five percent (15.525%) of the salary of each participant
July 1, 2017	Sixteen point seventy hundred seventy-five percent (16.775%) of the salary of each participant
July 1, 2018	Eighteen point twenty-five percent (18.025%) of the salary of each participant
July 1, 2019	Nineteen point two hundred seventy-five percent (19.275%) of the salary of each participant
July 1, 2020	Twenty point five hundred twenty-five percent (20.525%) of the salary of each participant

It is provided that the established increases applicable to the municipalities for fiscal years 2012-2013 and 2013-2014, shall be included in the budget petition submitted by the Office of Management and Budget to the Legislative Assembly.

Death, Disability or Terminal Illness Benefits

Death of a Participant in Active Service

Upon death of any person who is rendering services and who had contributions accrued in the Hybrid Program, these contributions shall be reimbursed to the person or persons the participant had designated through written order duly acknowledged and submitted to the Administrator, or to his/her heirs, in the event such designation had not been made. The reimbursement shall be equal to the sum of the contributions and the investment yields up to the date of the demise of the participant. The Administrator shall collect from the contributions any debt the participant may have with the System.

Death of a Pensioner

If a pensioner dies without having consumed all of his/her pension payment contributions, his/her designated beneficiaries or, absent such designation, his/her heirs, shall continue receiving the monthly pension payments until the contributions of the participant are completely consumed.

Separation from Service for Disability or Terminal Illness

The balance in the contribution account of every participant of the Hybrid Program who is permanently separated from service due to total and permanent disability, due to disability pursuant to Act No. 127 of June 27, 1958, as amended, or due to terminal illness, as determined by the Administrator, shall be distributed to the participant by the Administrator in a lump sum, or through the grant of an annuity, or any other optional form of payment pursuant to Section 5-110 of Act No. 447, at the option of the participant.

Beginning on June 30, 2013, no disability pensions shall be awarded pursuant to Sections 2-107 thru 2-111 of Act No. 447.

continue

6. PENSION PLAN – continuation

Disability Insurance

The Administrator, with the approval of the Board, shall establish a disability benefits program, which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Insurance Commissioner of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled, shall be made by the insurance company that issues the insurance policy covering the person. All the participants of the Program who are employees shall avail themselves to the disability benefits program in the manner and form established by the Administrator.

Additional Benefits Program

The Additional Benefits Program is established for pensioners of the ERS; said benefits are separate and shall not form part of the pension or annuity.

Except for those persons who retire under Chapter 5 of Act No. 447 of May 15, 1951, as amended, every person who was receiving a pension or benefit under Act No. 447, or the pension plans superseded by it, or any other law administered by the Administrator of the ERS, excluding any person who is receiving a pension or benefit under Act No. 12 of October 19, 1954, as amended, shall be entitled to receive the following benefits:

- (a) A Medication Bonus equal to one hundred (\$100), which shall be paid no later than July 15 of each year;
- (b) A Christmas Bonus equal to two hundred dollars (\$200), which shall be paid no later than December 20 of each year; and
- (c) A Government contribution for health benefits for employees covered by health benefit plans under Act No. 95 of June 29, 1963, as amended, of one hundred dollars (\$100) monthly for pensioners of the Employees Retirement System of the Government of the Commonwealth of Puerto Rico, but it shall not exceed the total amount of the corresponding fee to be paid to any employee.

In order to fund the Additional Benefits Program and the ERS, beginning on fiscal year 2013-2014 and every subsequent fiscal year, the ERS shall receive a contribution equal to two thousand dollars (\$2,000) as of July 1 of every year for every pensioner of the ERS who began to work in the Public Service on or before of December 31, 1999.

The Administration of the ERS shall determine the total amount of the special additional contribution provided in the above paragraph and shall send a certification to the Director of the Office of Management and Budget and to each public corporation and municipality whose employees are retired under the ERS, informing them the amount corresponding to the special additional contribution.

The funds to cover the contribution described above, with respect to pensioners of the Central Government, shall be allocated in the Budget of Expenses of the Government of the Commonwealth of Puerto Rico. Public corporations and municipalities whose employees are covered under this Act shall provide the funds to cover the contribution described in Section 2 with respect to their pensioners.

The persons who retire under the provisions of Act 305-1999, known as 'Retirement Savings Accounts Program', and under Chapter 5 of Act No. 447 of May 15, 1951, as amended, shall be excluded from receiving the benefits granted under Act.

6. PENSION PLAN – continuation

Annual Contribution

The Department's contributions during the current year are recognized as total pension expenditures of \$7,974,892.

These amounts represented the 100% of the required contribution for the fiscal year. Additionally, changes made in the types and amounts of benefits offered by special laws and costs of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico provides additional information of the System. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

7. CONTINGENCIES

Federal Awards

In the normal course of operations, the Department participates in various federal grant agreements from year to year. The expenditures financed by grants are subject to program compliance audits by the grantor and passed-through agencies in order to assure compliance with grant requirements. If expenditures are disallowed due to noncompliance with grant program regulations, the Department may be required to reimburse the grantors for such expenditures.

The Report on Compliance with Requirements Applicable to Each Major Federal Award Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 for the year ended June 30, 2013, disclosed several instances of noncompliance with applicable laws and regulations that were considered to be material weaknesses. Of the federal expenditures authorized for the fiscal year 2012-2013, the auditors determined that cost amounting \$886,140 are disallowed.

The Department is also subject to audits performed by the Office of the Comptroller of Puerto Rico.

Litigation

The Department is defendant in lawsuits arising in the normal course of governmental operations, principally from claims for alleged violation of civil rights and discrimination in employment practices. According to Act Number 104 of the Commonwealth of Puerto Rico, as amended, known as "Claims and Lawsuits against the State", provides that lawsuits initiated against an agency or instrumentality of the Commonwealth, including its employees, directors, mayors, and other government officers may be defended by the Department. Any claims with negative financial impact will be paid from the General Fund of the Commonwealth of Puerto Rico, with no effect on the budget or resources of the Department.

8. RELATED PARTY TRANSACTIONS

The Department has the following transactions with governmental units:

- ◆ The Department paid to Puerto Rico Electric Power Authority the amount of \$3,992,107 for services provided during the fiscal year ended June 30, 2013.
- ◆ The Department paid to Puerto Rico Water and Sewer Authority the amount of \$161,000 for services provided during the fiscal year ended June 30, 2013.

continue

8. RELATED PARTY TRANSACTIONS

- ◆ The Department paid to Public Building Authority of Puerto Rico the amount of \$3.0 million for operating leases of building facilities during the fiscal year ended June 30, 2013.
- ◆ The Department paid to General Administration Services of Puerto Rico the amount of \$356,374 for vehicles services and supplies during the fiscal year ended June 30, 2013.

9. SUBSEQUENT EVENT

The Department has evaluated subsequent events through May 8, 2014, the date which the financial statement were available to be issued. No additional subsequent events were identified that should be disclosed or adjusted in the financial statement or its notes.

END OF NOTES

PART II

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133**

This page intentionally left blank.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF JUSTICE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR / PASS-THROUGH GRANTOR / PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	TOTAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through the Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558		\$ 8,756
Total U.S. Department of Agriculture			8,756
U.S. Department of Justice:			
Direct Programs:			
Crime Victim Assistance Grant Program (Cluster).....	16.575		3,470,614
ARRA – State Victim Assistance Formula Program	16.801		73,536
Subtotal Crime Victim Assistance Grant Program (Cluster)			3,544,150
Crime Victim Compensation (Cluster).....	16.576		213,821
ARRA – State Victim Compensation Formula Grant Program	16.802		111
Subtotal Crime Victim Compensation (Cluster)			213,932
Edward Byrne Memorial Justice Assistance Grant Program (Cluster)	16.738		5,566,203
ARRA – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories.....	16.803		1,781,370
Subtotal Edward Byrne Memorial Justice Assistance Grant Program (Cluster)			7,347,573
Subtotal U.S. Department of Justice Direct Programs			11,105,655
Pass-Through the Office of the Commissioner of Municipal Affairs of Puerto Rico:			
Juvenile Accountability Block Grants	16.523		165,243
Pass-Through the Procurement for Woman Office of Puerto Rico:			
STOP Violence against Woman Formula Grant Program	16.588		374,096
Total U.S. Department of Justice			11,644,994

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF JUSTICE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<u>FEDERAL GRANTOR / PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>TOTAL EXPENDITURES</u>
U.S. Department of Health and Human Services:			
Pass-Through the Puerto Rico Department of Family:			
Child Support Enforcement.....	93.563		<u>566,355</u>
Total U.S. Department of Health and Human Services ..			<u>566,355</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$12,220,105</u>

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activities of the Department of Justice of the Commonwealth of Puerto Rico (Department). The information in this Schedule is presented in accordance with the requirements of Office of Management and Budget (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 Department, it is not intended to and does not present the financial position, or change in net assets of the Department.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statement. The Department reporting entity is defined in Note (1) (A) to the financial statement. All federal financial awards received directly from federal agency as well as federal financial awards passed-through other government agencies, if any, are included on the Schedule.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State and Local Government*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.
- C. Pass-through entity identifying numbers are presented where available and applicable.

3. SCHEDULE NOT IN AGREEMENT WITH OTHER FEDERAL AWARD REPORTING

The information included in the Schedule may not fully agree with other federal award reports submitted directly to federal granting agencies. The reporting and registration requirements under Section 1512 of the American Recovery and Reinvestment Act require informing on use Recovery Act funds provided through this award. This report is prepared in accrual basis and will has differences with the information reported on the Schedule, which prepared in cash basis.

4. FEDERAL CFDA NUMBER

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

5. RELATIONSHIP TO STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND NET CHANGES – GOVERNMENTAL FUNDS

Expenditures of federal awards are reported in the Department's Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Fund in the Special Revenue Fund column.

6. SUBRECIPIENTS

Of the federal expenditures presented in the Schedule, the Department provided federal awards to subrecipients as follows:

PROGRAM TITLE	FEDERAL CFDA NUMBER	AMOUNT PROVIDED TO SUBRECIPIENTS
Crime Victim Assistance Grant Program	16.575	\$ 2,540,070
Edward Byrne Memorial Justice Assistance Grant Program	16.738	3,282,853
ARRA – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	<u>332,508</u>
TOTAL		<u>\$ 6,155,431</u>

END OF NOTES

This page intentionally left blank.



INDEPENDENT AUDITOR'S 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

**Secretary of the Department of Justice of the
Commonwealth of Puerto Rico
San Juan, Puerto Rico**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the **Department of Justice of the Commonwealth of Puerto Rico (Department)**, as of and for the fiscal year ended June 30, 2013, and the related notes to financial statement, which collectively comprise the **Department's** financial statement, and have issued our qualify report thereon dated May 8, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the **Department's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Department's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Department's** internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the **Department's** financial 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 items 2013-001 through 2013-005 to be material weaknesses.

INDEPENDENT AUDITOR'S 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

Secretary of the Department of Justice of the

Commonwealth of Puerto Rico

Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Department's** financial statement are 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 items 2013-003 through 2013-005.

Department's Response to Findings

The **Department's** response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The **Department's** response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the **Department's** internal control or on compliance. This report is an integral part of an audit reformed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CPA DIAZ-MARTINEZ, PSC

Certified Public Accountants & Consultants

License Number 12, expires on December 1, 2016

Caguas, Puerto Rico

May 8, 2014

Stamp No. E100056 was affixed to
the original report.



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE REQUIREMENTS FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*

Secretary of the Department of Justice of the
Commonwealth of Puerto Rico
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited **Department of Justice of the Commonwealth of Puerto Rico (Department)**'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the **Department**'s major federal programs for the fiscal year ended June 30, 2013. The **Department**'s major federal programs are identified in the Summary of Auditor's Result Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the **Department**'s major federal programs based on our audit of the types of compliance requirements referred to above. 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 **Department**'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the **Department**'s compliance.

Basis for Qualified Opinion (See the following Table)

As described in the accompanying Schedule of Findings and Questioned Costs, the **Department** did not comply with requirement regarding the following:

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE REQUIREMENTS FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Secretary of the Department of Justice of the
Commonwealth of Puerto Rico

Page 2

Finding Number	CFDA Number	Program (or Cluster) Name	Compliance Requirement	Questioned Cost
2013-006	16.738 and 16.803	Edward Byrne Memorial Justice Assistance Grant Program / ARRA – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories (Cluster)	Allowable Cost / Cost Principles	\$319,785
2013-007	93.563	Child Support Enforcement	Allowable Cost / Cost Principles; Allowable Activities; Period of Availability of Funds	566,355
2013-008	ALL	ALL PROGRAMS	Reporting	-
2013-009	16.575 and 16.801; 16.738 and 16.803	Crime Victim Assistance Grant Program / ARRA – State Victim Assistance Formula Grant Program (Cluster) Edward Byrne Memorial Justice Assistance Grant Program / ARRA – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories (Cluster)	Subrecipient Monitoring	-
2013-010	16.575	Crime Victim Assistance Grant Program	Subrecipient Monitoring	-
Total Questioned Costs				<u>\$886,140</u>

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

Qualified Opinion (See the above Table)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the **Department** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs described in the above table for the fiscal year ended June 30, 2013.

Other Matters

The **Department's** response to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The **Department's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Management of the **Department** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the **Department's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the **Department's** internal control over compliance.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE REQUIREMENTS FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

**Secretary of the Department of Justice of the
Commonwealth of Puerto Rico**

Page 3

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2013-006 through 2013-010 to be material weaknesses.

The **Department's** response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The **Department's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2016

Caguas, Puerto Rico
May 8, 2014

Stamp No. E100057 was affixed to
the original report.

This page intentionally left blank.

PART III
FINDINGS AND QUESTIONED COSTS

This page intentionally left blank.

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

- ☒ Unmodified Opinion
Modified: ☒ Qualified Opinion
☐ Adverse Opinion
☐ Disclaimer Opinion

Internal control over financial reporting:

- Material weakness (es) identified? ☒ Yes ☐ No
 - Significant deficiency (ies) identified? ☐ Yes ☒ None Reported
- Noncompliance material to financial statements noted? ☒ Yes ☐ No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? ☒ Yes ☐ No
- Significant deficiency (ies) identified? ☐ Yes ☒ None Reported

Type of auditors' report issued on compliance for
Major Programs:

- ☐ Unmodified Opinion
☒ Qualified Opinion
- Crime Victim Assistance Grant Program (Cluster)
 - **ARRA** – State Victim Assistance Formula Grant Program
 - Edward Byrne Memorial Justice Assistance Grant Program (Cluster)
 - **ARRA** – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories
 - STOP Violence against Woman Formula Grant Program
 - Child Support Enforcement
- ☐ Adverse Opinion ☐ Disclaimer Opinion

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

- ☒ Yes ☐ No

Identification of Major Programs:

CFDA NUMBER	NAME OF FEDERAL PROGRAM OR CLUSTER
16.575	Crime Victim Assistance Grant Program (Cluster)
16.801	ARRA – State Victim Assistance Formula Grant Program
16.738	Edward Byrne Memorial Justice Assistance Grant Program (Cluster)
16.803	ARRA – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories
16.588	STOP Violence against Woman Formula Grant Program
93.563	Child Support Enforcement

Dollar threshold used to distinguish between
Type A and Type B Programs:

\$366,603

Auditee qualified as low-risk auditee?

- ☐ Yes ☒ No

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2013-001
TYPE OF FINDING	MATERIAL WEAKNESS
CRITERIA	Act Number 230 of July 23, 1974, as amended, known as the “Commonwealth of Puerto Rico Accounting Act” establish the accounting procedures and internal controls that should be in place for those Agencies and Departments of the Commonwealth that maintain their accounting under the custody of the Puerto Rico Treasury Department. This controls include that disbursements and receipts should be adequately documented and records for such transactions be kept for a period of at least six (6) years.
CONDITION	During our disbursement internal control test for state funds, we selected a sample of forty (40) transactions, and we noted the following deficiencies: <ol style="list-style-type: none"> 1. A total of eleven (11) disbursements vouchers (which included purchase orders, invoices, receiving reports, and other sources documentation) were not available to perform audit procedures.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	Total disbursement vouchers selected were 40 (total amount of \$2,304,793), total disbursement vouchers not available for testing were 11 (total amount of \$203,446), this represents 30% of the sample selected.
CAUSE	The Department did not maintain an adequate filing system for program disbursements for the fiscal year cover by our audit.
EFFECT OR POSSIBLE EFFECT	Lack of supporting documents could result in expenditures charge to the general funds be considered unlawful due to the lack of supporting documentation.
RECOMMENDATION	We recommend management to develop and implement adequate filing system for disbursement documentation. In addition, for the year under audit should continue the efforts with Puerto Rico Treasury Department to locate the missing disbursement documentation and file them in the Department .
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	While most of the documents requested were available nine out of forty were missing, these documents are from disbursement process belonging to transactions performed in/or before December 2012. The Department recognizes that maintaining appropriate documentation for disbursement procedures is a requirement that must be corrected. Immediate steps have been taken to develop and maintain an accurate filing system that complies with state and federal regulations. The filing systems will be categorized by fiscal year, project and vendor. We will be working closely with Puerto Rico Treasury Department to locate the missing documentation and complete the filing process in the Department.
IMPLEMENTATION DATE	June 30, 2014
RESPONSIBLE PERSON	Dania R. Frías Martínez, CPA Auxiliary Secretary for Management and Administration Finance Division

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2013-002
TYPE OF FINDING	MATERIAL WEAKNESS
CRITERIA	Act Number 230 of July 23, 1974, as amended, known as the “Commonwealth of Puerto Rico Accounting Act” establish the accounting procedures and internal controls that should be in place for those Agencies and Departments of the Commonwealth that maintain their accounting under the custody of the Puerto Rico Treasury Department. This controls include that disbursements and receipts should be adequately documented and records for such transactions be kept for a period of at least six (6) years.
CONDITION	We selected a sample of fourteen (14) receipts to test the reasonableness of account balance of the State Appropriations and the Federal Grants Receipts presented on the Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds. From the sample selected, a total of 5 receipts were not available for audit procedures.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	Total receipts selected were 14 (total amount of \$9,156,045), total receipts not available for testing were 5 (total amount of \$1,016,890), this represents 36% of the sample selected.
CAUSE	The Department did not maintain an adequate filing system for cash receipts for the fiscal year cover by our audit.
EFFECT OR POSSIBLE EFFECT	The opinion on the account balance of the receipts of the Special Revenue Fund was qualified due to lack of supporting documents.
RECOMMENDATION	We recommend management to develop and implement adequate filing system for documentation. In addition, for the year under audit should continue the efforts with Puerto Rico Treasury Department to locate the missing receipts and file them in the Department .
RESPONSIBLE OFFICIAL’S RESPONSE AND CORRECTIVE ACTION PLANNED	While most of the documents requested were available five out of fourteen were missing. The Department recognizes that maintaining appropriate documentation for the receipts procedures is a requirement that must be corrected. Immediate steps have been taken to develop and maintain an accurate filing system that complies with state and federal regulations. The filing systems will be categorized by fiscal year, project and vendor. A person has been officially designated to perform this task as is responsible of the proper filing of documents. We will be working closely with Puerto Rico Treasury Department to locate the missing documentation and complete the filing process in the Department.
IMPLEMENTATION DATE	June 30, 2014
RESPONSIBLE PERSON	Dania R. Frías Martínez, CPA Auxiliary Secretary for Management and Administration Finance Division Olga Santiago, External Resources Director

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2013-003 (See FINDING REFERENCE NUMBER 2013-006)
FEDERAL PROGRAM	EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT PROGRAM (CFDA NO. 16.738) / ARRA – EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE (JAG) GRANT PROGRAM/GRANTS TO STATES AND TERRITORIES (CFDA NO. 16.803) (CLUSTER) U.S. DEPARTMENT OF JUSTICE
AWARD NUMBERS	2009-SU-B9-0053; 2009-DJ-BX-1102; 2010-DJ-BX-0636; 2011-DJ-BX-2693
COMPLIANCE REQUIREMENT	ALLOWABLE COSTS/COST PRINCIPLES
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	OMB Circular A-87 requires that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc..
CONDITION	<p>During our disbursement test for federal program funds, we noted the following deficiencies:</p> <ol style="list-style-type: none"> 1. A total of eight (8) disbursements vouchers (which include purchase orders, invoices, receiving reports, and other sources documentation) were not available to perform audit procedures. 2. A total of sixteen (16) disbursements tested lack the complete documentation for payment. The missing documentation was: <ol style="list-style-type: none"> a. Requisition / Bid Process – fifteen (15) disbursements b. Voucher and Vendor Invoice – two (2) disbursements c. Pre-audit Evidence – seven (7) disbursements

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2013-004 (See FINDING REFERENCE NUMBER 2013-007)
FEDERAL PROGRAM	CHILD SUPPORT ENFORCEMENT (CFDA NO. 93.563) PASS-THROUGH THE PUERTO RICO DEPARTMENT OF FAMILY U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
AWARD NUMBER	2013-000048
COMPLIANCE REQUIREMENT	ALLOWABLE COSTS/COST PRINCIPLES / PERIOD OF AVAILABILITY OF FUNDS
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	OMB Circular A-87 requires that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc..
CONDITION	The Department did not make available the audit documentation requested to perform our test of internal control and compliance for the requirements Allowable Costs/Cost Principles, Allowable Activities, and Period of Availability of Funds.

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2013-005 (See FINDING REFERENCE NUMBER 2013-008)
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE – REPORTING PACKAGE OF SINGLE AUDIT
CRITERIA	OMB Circular A-133, Subpart C, Section .320 (a), (c), state all the audit shall be completed and the Data Collection Form and Reporting Package shall be submitted to the Federal Audit Clearinghouse designated by OMB within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.
CONDITION	The Department did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2013 during the required period.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2013-006 (See FINDING REFERENCE NUMBER 2013-003)
FEDERAL PROGRAM	EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT PROGRAM (CFDA NO. 16.738) / ARRA – EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE (JAG) GRANT PROGRAM/GRANTS TO STATES AND TERRITORIES (CFDA NO. 16.803) (CLUSTER) U.S. DEPARTMENT OF JUSTICE
AWARD NUMBERS	2009-SU-B9-0053; 2009-DJ-BX-1102; 2010-DJ-BX-0636; 2011-DJ-BX-2693
COMPLIANCE REQUIREMENT	ALLOWABLE COSTS/COST PRINCIPLES
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	OMB Circular A-87 and Common Rule codified at the Department of Justice Part 66, Section 66.20 requires that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc..
CONDITION	<p>During our audit procedures over Allowable Cost/Cost Principles, we selected a sample of forty (40) disbursement vouchers and noted the following deficiencies:</p> <ol style="list-style-type: none"> 1. A total of eight (8) disbursements vouchers (which include purchase orders, invoices, receiving reports, and other sources documentation) were not available to perform audit procedures, and 2. A total of sixteen (16) disbursements tested lack the complete documentation for payment. The missing documentation was: <ol style="list-style-type: none"> a. Requisition / Bid Process – fifteen (15) disbursements b. Voucher and Vendor Invoice – two (2) disbursements c. Pre-audit Evidence – seven (7) disbursements
QUESTIONED COSTS	Total disbursement vouchers not available amounting to \$319,785.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	From a population of 431 disbursement vouchers (\$7,347,572), we selected 40 disbursement vouchers, for which 8 vouchers were not available, this represents 20% of the sample selected, or \$319,785 in total expenditures.
CAUSE	The Department did not maintain an adequate filing system for program disbursements for the fiscal year cover by our audit.
EFFECT OR POSSIBLE EFFECT	Lack of supporting documents could result in unallowable cost that must be reimbursed to the federal agency from state funds.
RECOMMENDATION	We recommend management to develop and implement adequate filing system for program disbursement. In addition, should continue the efforts with Puerto Rico Treasury Department to locate the missing disbursement documentation and file them in the Department .

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2013-006 (See FINDING REFERENCE NUMBER 2013-003) – continuation

**RESPONSIBLE OFFICIAL'S
RESPONSE AND CORRECTIVE
ACTION PLANNED**

While most of the documents requested were available eight out of forty were missing, these documents are from disbursement process belonging to transactions performed in/or before December 2012. The Department recognizes that maintaining appropriate documentation for disbursement procedures is a requirement that must be corrected. Immediate steps have been taken to develop and maintain an accurate filing system that complies with state and federal regulations. The filing systems will be categorized by fiscal year, project and vendor. We will be working closely with Puerto Rico Treasury Department to locate the missing documentation and complete the filing process in the Department.

IMPLEMENTATION DATE

June 30, 2014

RESPONSIBLE PERSON

Dania R. Frías Martínez, CPA
Auxiliary Secretary for Management and Administration
Finance Division

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2013-007 (See FINDING REFERENCE NUMBER 2013-004)
FEDERAL PROGRAM	CHILD SUPPORT ENFORCEMENT (CFDA NO. 93.563) PASS-THROUGH THE PUERTO RICO DEPARTMENT OF FAMILY U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
AWARD NUMBER	2013-000048
COMPLIANCE REQUIREMENT	ALLOWABLE COSTS/COST PRINCIPLES / PERIOD OF AVAILABILITY OF FUNDS
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	OMB Circular A-87 requires that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc..
CONDITION	The Department did not make available the audit documentation requested to perform our test of internal control and compliance for the requirements Allowable Costs/Cost Principles, Allowable Activities, and Period of Availability of Funds.
QUESTIONED COSTS	A total of \$566,355 is being questioned for the unavailable source documentation.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	No source documents were available for audit procedures.
CAUSE	During our audit, we requested the award document for the Child Support Enforcement to determine the applicable compliance requirements subject to audit test. The award document was submitted by the client two weeks prior to the audit due date. This delay caused that related audit documents requested to perform our audit procedures were not located and available for our tests. In addition, the Department did not maintain an adequate filing system for program disbursements for the fiscal year cover by our audit.
EFFECT OR POSSIBLE EFFECT	Lack of supporting documents could result in unallowable cost that must be reimbursed to the federal agency from state funds.
RECOMMENDATION	We recommend the Department to develop and implement adequate filing system for program disbursement. In addition, should continue the efforts with PR Treasury Department to locate the missing disbursement documentation and file them in the Department .
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	The Department acknowledges that complete documentation was not available to provide audit trail on the disbursement. The Department of Justice will perform a collection management process with Child Support Enforcement to complete this transaction.
IMPLEMENTATION DATE	June 30, 2014
RESPONSIBLE PERSON	Dania R. Frías Martínez, CPA Auxiliary Secretary for Management and Administration Finance Division

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2013-008 (See FINDING REFERENCE NUMBER 2013-005)
FEDERAL PROGRAM	CRIME VICTIM ASSISTANCE GRANT PROGRAM (CFDA NO. 16.575) / ARRA – STATE VICTIM ASSISTANCE FORMULA GRANT PROGRAM (CLUSTER) (CFDA NO. 16.801) U.S. DEPARTMENT OF JUSTICE
AWARD NUMBERS	2010-VA-GX-0093; 2011-VA-GX-0058; 2009-SG-B9-0112
FEDERAL PROGRAM	EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT PROGRAM (CFDA NO. 16.738) / ARRA – EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE (JAG) GRANT PROGRAM/GRANTS TO STATES AND TERRITORIES (CFDA NO. 16.803) (CLUSTER) U.S. DEPARTMENT OF JUSTICE
AWARD NUMBERS	2009-SU-B9-0053; 2009-DJ-BX-1102; 2010-DJ-BX-0636; 2011-DJ-BX-2693
FEDERAL PROGRAM	STOP VIOLENCE AGAINST WOMAN FORMULA GRANT PROGRAM (CFDA NO. 16.588) PASS-THROUGH THE PROCUREMENT FOR WOMAN OFFICE OF PUERTO RICO U.S. DEPARTMENT OF JUSTICE
AWARD NUMBERS	2009-SU-B9-0053; 2009-DJ-BX-1102; 2010-DJ-BX-0636; 2011-DJ-BX-2693
FEDERAL PROGRAM	CHILD SUPPORT ENFORCEMENT (CFDA NO. 93.563) PASS-THROUGH THE PUERTO RICO DEPARTMENT OF FAMILY U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
AWARD NUMBER	2013-000048
COMPLIANCE REQUIREMENT	REPORTING
TYPE OF FINDING	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE – REPORTING PACKAGE OF SINGLE AUDIT
CRITERIA	OMB Circular A-133, Subpart C, Section .320 (a), (c), state all the audit shall be completed and the Data Collection Form and Reporting Package shall be submitted to the Federal Audit Clearinghouse designated by OMB within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.
CONDITION	The Department did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2013 during the required period.
CAUSE	The Department were unable to provide timely the financial statements and related supporting documentation in order to apply required audit procedures.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	The Department did not have adequate accounting records in order to produce the financial statements with supporting documentation timely.
EFFECT OR POSSIBLE EFFECT	The Department did not comply with the submission date required for the Data Collection Form and Reporting Package.
QUESTIONED COSTS	None Noted.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2013-008 (See FINDING REFERENCE NUMBER 2013-005)** – continuation

RECOMMENDATION We recommend management to implement adequate internal control procedures in order to assure that accounting records and supporting documentation is available on a timely manner.

**RESPONSIBLE OFFICIAL'S
RESPONSE AND CORRECTIVE
ACTION PLANNED** Prospectively the Department of Justice will complete the contract process and will have all records and documentation needed to complete the Single Audit submission in a timely manner.

IMPLEMENTATION DATE March 30, 2015

RESPONSIBLE PERSON Dania R. Frías Martínez, CPA
Auxiliary Secretary for Management and Administration
Finance Division

Olga Santiago, External Resources Director

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2013-009
FEDERAL PROGRAM	CRIME VICTIM ASSISTANCE GRANT PROGRAM (CFDA NO. 16.575) / ARRA – STATE VICTIM ASSISTANCE FORMULA GRANT PROGRAM (CLUSTER) (CFDA NO. 16.801) U.S. DEPARTMENT OF JUSTICE
AWARD NUMBERS	2010-VA-GX-0093; 2011-VA-GX-0058; 2009-SG-B9-0112
FEDERAL PROGRAM	EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT PROGRAM (CFDA NO. 16.738) / ARRA – EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE (JAG) GRANT PROGRAM/GRANTS TO STATES AND TERRITORIES (CFDA NO. 16.803) (CLUSTER) U.S. DEPARTMENT OF JUSTICE
AWARD NUMBERS	2009-SU-B9-0053; 2009-DJ-BX-1102; 2010-DJ-BX-0636; 2011-DJ-BX-2693
COMPLIANCE REQUIREMENT	SUBRECIPIENT MONITORING
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	OMB Circular A-133 Section __.400 and __.405 and the U.S. Department of Justice Financial Guide require entities that make subaward of federal funds to develop procedures to ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year provide the required completed audit within 9 months after their year-end or one month after the issuance of their audit. Upon receipt of the subrecipient audit the pass-through entity need to: Evaluate the impact of subrecipient activities on the entity's ability to comply with applicable Federal regulations, and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings.
CONDITION	During our audit procedures we noted that the Department has not established a formal process for the receipt, review and evaluation of Single Audit reports of subrecipients of the Crime Victim Assistance Grant Program / ARRA – State Victim Assistance Formula Grant Program, and Edward Byrne Memorial Justice Assistance Grant Program / ARRA – Edward Byrne Memorial Justice Assistance Grant (JAG) Program in accordance with federal requirements.
QUESTIONED COSTS	Not determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	This condition limits the capability of the Department to determine the subrecipients and its own compliance with federal requirements.
CAUSE	The Department developed a Monitoring Manual on February 2012, which included all monitoring activities, including the receipt of Single Audit reports and performing the management decisions and other related actions with the Single Audit reports. However, this Manual does not specify the actions needed to perform this phase of the subrecipient monitoring activities.
EFFECT OR POSSIBLE EFFECT	The Department does not have assurance that subrecipients are complying with the applicable federal audit requirement and does not have the information available to determine if any adjustment is needed to its own records, or if any findings or questioned costs needs corrective action from the subrecipient.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2013-009 – continuation

RECOMMENDATION

We recommend management to review the Monitoring Manual and include a section that addresses the process of Audit Resolution and Management Decisions related to Single Audit reports of subrecipients. Among other items, this revision should include: Timeline for the resolution process, format of letters to follow-up with subrecipients submissions of Single Audit reports, deadlines for Corrective Actions to be implemented, and sanctions for non-compliance.

**RESPONSIBLE OFFICIAL'S
RESPONSE AND CORRECTIVE
ACTION PLANNED**

The Division has implemented a procedure to request the Single Audit during the subgrantee grant period. As per auditors recommendations the revision will include: Timeline for the resolution process, format of letters to follow-up with subrecipients submissions of Single Audit reports, deadlines for Corrective Actions to be implemented, and sanctions for non-compliance.

IMPLEMENTATION DATE

April 30, 2014

RESPONSIBLE PERSON

Dania R. Frías Martínez, CPA
Auxiliary Secretary for Management and Administration
Finance Division

Olga Santiago, External Resources Director

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2013-010
FEDERAL PROGRAM	CRIME VICTIM ASSISTANCE GRANT PROGRAM (CFDA NO. 16.575) U.S. DEPARTMENT OF JUSTICE
AWARD NUMBERS	2010-VA-GX-0093; 2011-VA-GX-0058
COMPLIANCE REQUIREMENT	SUBRECIPIENT MONITORING
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	The Department's Monitoring Manual and the U.S. Department of Justice Financial Guide requires grantees to perform subrecipient site visits to examine financial and programmatic records and observe operations.
CONDITION	During our audit procedures over subrecipient monitoring, we noted that the Department failed to perform monitoring site visits on two Crime Victim Assistance Grant Program subrecipients during the fiscal year under audit.
QUESTIONED COSTS	Not determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	The sample selected consisted of six subrecipients' files, we found that on two of them the monitoring site visit was not performed.
CAUSE	The Department developed a monitoring plan that included site visits to subrecipients. However, these subrecipients were not monitored during the period to assure performance according to provisions of the contract awarded.
EFFECT OR POSSIBLE EFFECT	The Department does not have assurance that subrecipients are complying with the applicable federal requirements and that the required activities are being performed.
RECOMMENDATION	We recommend management to implement adequate internal control procedures in order to assure that personnel assigned to monitoring functions are performing the onsite visits. In addition, management should evaluate and determine if any additional resources are needed to perform these procedures.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	The Division is in the process to implement a risk assessment and Monitoring procedure similar to AGA risk assessment, with this in place we will assure that monitors are performing this process in a regular basis.
IMPLEMENTATION DATE	June 30, 2014
RESPONSIBLE PERSON	Dania R. Frías Martínez, CPA Auxiliary Secretary for Management and Administration Finance Division Olga Santiago, External Resources Director

END OF SCHEDULE

(1) Audit Findings that have been Fully Corrected:

NONE

(2) Audit Findings not Corrected or Partially Corrected:

NONE

(3) Corrective action taken is significantly different from corrective action previously reported:

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE