

# *Financial Statements*

## **COMMONWEALTH OF PUERTO RICO DEPARTMENT OF JUSTICE**

**Statement of Cash Receipts and Cash Disbursements,  
and Required Supplementary Information  
for the Year Ended June 30, 2017**

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## **INDEPENDENT AUDITOR'S REPORT**

Wanda Vázquez Garced, Esq.  
Secretary of the Commonwealth of  
Puerto Rico Department of Justice  
San Juan, Puerto Rico

### **Report on the Financial Statement**

We have audited the accompanying financial statement of Cash Receipts and Disbursements of the governmental activities each major fund of the Commonwealth of Puerto Rico Department of Justice (the PRDOJ) for the year ended June 30, 2017, and the related notes to the financial statement.

### **Management's Responsibility for the Financial Statements**

The PRDOJ's management is responsible for the preparation and fair presentation of this financial statement in accordance with the basis of accounting described in Note A to the financial statement; this includes determining that the basis of accounting is an acceptable basis for the preparation of the 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 is free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express 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 statements are free from material misstatement.

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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash receipts and disbursements of the governmental activities and the aggregate remaining fund information of the PRDOJ for the year ended June 30, 2017, in accordance with the basis of accounting described in Note A.

### Emphasis of Matters

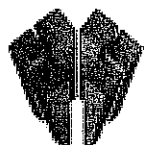
#### *Basis of Accounting*

As discussed in Note A to the financial statement, this financial statement is prepared on a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

#### *Uncertainty about Ability to Continue as a Going Concern – Primary Government*

As discussed in Notes A and G, the PRDOJ is part of the Government of Puerto Rico (Commonwealth). As of June 30, 2017, the financial condition and liquidity of the Commonwealth has deteriorated; and consequently, filed a petition for bankruptcy with the United States District Court for the District of Puerto Rico under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act, 48 USC sec. 2101 et seq. (PROMESA). The accompanying financial statement of the PRDOJ has been prepared assuming that the Commonwealth will continue as a going concern. Our opinion is not modified with respect to this matter.

As described in Note H to the financial statement, during September 2017, Puerto Rico was impacted by two hurricanes, which affected the operations of the PRDOJ. These hurricanes affected almost all networks of communications, supplies, electricity, water, gasoline and diesel, among others, diminishing the operations of most of governmental services and private businesses in Puerto Rico. Our opinion is not modified with respect to this matter.



**Aquino, DeCordova, Alfaro & Co., LLP**

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

## Report Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statement.

The schedule of expenditures of federal awards is the responsibility of PRDOJ's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statement as a whole.

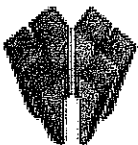
## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2018, on our consideration of the PRDOJ's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result 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 PRDOJ's internal control over financial reporting and compliance.

August 15, 2018

Stamp Number E358669  
of Puerto Rico CPA Society  
has been affixed to the  
original report

Aquino, De Córdova, Alfaro & Co., LLP  
by Eduardo González-Green  
Lic. # 3171



**Aquino, De Córdova, Alfaro & Co., LLP**

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF JUSTICE**  
**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<b>Governmental Funds</b>			<b>Total</b>
	<b>General Fund</b>	<b>Special Revenue State</b>	<b>Special Revenue Federal</b>	
<b>CASH RECEIPTS:</b>				
Appropriations from the Commonwealth of Puerto Rico	\$ 100,651,028	\$ 98,713,493	\$ -	\$ 199,364,521
Federal Grants	-	-	4,325,494	4,325,494
	<u>100,651,028</u>	<u>98,713,493</u>	<u>4,325,494</u>	<u>203,690,015</u>
<b>CASH DISBURSEMENTS:</b>				
Legal Consulting and Representation	12,415,875	4,282,503	-	16,698,378
Legal Claims, Orders and Judgements	-	62,397,955	-	62,397,955
Management and General Administration	6,501,250	11,294,142	14,330,906	32,126,298
Special Investigations	9,653,493	202,621	-	9,856,114
Families and Minors Affairs Investigation & Prosecution	13,118,737	147,031	3,449,973	16,715,741
Criminal Investigation & Prosecution	40,283,971	1,459,202	407,359	42,150,532
Compensation & Services to Crime Victims & Witnesses	280,786	370,004	467,061	1,117,851
Real Property Registry	16,248,644	1,540,107	-	17,788,751
Restriction of Anti-monopolistic Practices	267,219	254,270	-	521,489
Criminal Justice Information System	1,878,337	72,312	143,114	2,093,763
	<u>100,648,312</u>	<u>82,020,147</u>	<u>18,798,413</u>	<u>201,466,872</u>
<b>EXCESS (DEFICIENCY) OF CASH RECEIPTS OVER CASH DISBURSEMENTS</b>	<u>\$ 2,716</u>	<u>\$ 16,693,346</u>	<u>\$ (14,472,919)</u>	<u>\$ 2,223,143</u>

See accompanying notes to statement of cash receipts and disbursements.

**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF JUSTICE**  
**NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Commonwealth of Puerto Rico Department of Justice of (the PRDOJ) was created by 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. sections 71 and on other special laws that assign functions, powers and faculties to the Secretary of Justice.

The main functions of the PRDOJ 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 businesses 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.

**Financial Reporting Entity**

The PRDOJ, is for financial reporting purposes, an agency of the Commonwealth of Puerto Rico and its financial data is included as part of the general fund in the Commonwealth of Puerto Rico's financial statements. The PRDOJ's financial statement is issued solely to comply with the Single Audit Act Amendments of 1996 and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

**Basis of Accounting**

The PRDOJ follows the cash basis of accounting to account for all funds administered. Under this basis, cash or funds transferred-in are recognized as revenues when received, and expenditures are recognized when funds are disbursed or transferred-out. Therefore, the Statement of Cash Receipts and Disbursements is not intended to present the PRDOJ's results of operations in accordance with accounting principles generally accepted in the United States of America. Capital assets and compensated absences are reported as expenditures upon disbursement. Accordingly, no capital assets (nor its related depreciation) and/or accrued compensated absences are accrued in the PRDOJ's financial statements.

**COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF JUSTICE  
NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2017**

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**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation**

The accounts of the PRDOJ are organized in two fund types: General Fund and Special Revenue Fund. The PRDOJ maintains appropriations for several individual state and federal funds within each fund type. As more fully explained in the section "Basis of Accounting" above, each fund is accounted for with a set of accounts which include only cash receipts and disbursements. No balance sheet accounts are reported. The individual funds account for the governmental resources allocated to them are for purposes of carrying on specific activities in accordance with laws, regulations and other restrictions.

The General Fund is the general operating fund used to account for the funds appropriated by the Legislature of the Commonwealth of Puerto Rico and is the fund through which most functions are typically financed. The Special Revenue Fund reflects the federal financial assistance managed by the PRDOJ for programs funded by the Federal Government that is legally restricted to expenditures for specific purposes.

**Statutory (Budgetary) Accounting**

The PRDOJ's total available spending authorization, which is considered its budget, is adopted in accordance with a statutory basis of accounting. Revenues are recognized when cash is received. Expenditures are recognized when the related costs are paid or encumbered. Available appropriations and encumbrances lapse the year following the end of the fiscal year when the encumbrance was established. Amounts required for settling claims and judgments against the Department, and other liabilities are not recognized until they are encumbered or otherwise processed for payment.

Under the statutory basis of accounting, the PRDOJ uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the PRDOJ's governmental funds, encumbrance is a significant aspect of budget control.



COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF JUSTICE  
NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2017

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**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Budgetary Control**

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

Encumbrance accounting is used for budgetary purposes. The encumbrances (that is, purchase orders, contracts and other commitments of appropriated resources) are considered expenditures when a commitment is made.

For cash receipts and disbursements basis of accounting, encumbrances outstanding at end of fiscal year are reported as reservations of budgetary appropriations and cash balances that do not constitute disbursements on a cash basis of accounting.

The Puerto Rico Department of the Treasury and the Puerto Rico Office of Management and Budget have the responsibility to ensure that budgetary spending control is exercised through the Puerto Rico Integrated Financial Accounting System (PRIFAS).

The General Fund is the only legally adopted annual operating budget. The Department management may make limited modifications to the budget amounts within the General Fund in coordination with the Puerto Rico Department of the Treasury and the Puerto Rico Office of Management and Budget.

**Compensated Absences**

The vacation policy of the Commonwealth of Puerto Rico that applies to the PRDOJ's employees provides for the accumulation of 15 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of employee resignation, the employee is paid accumulated vacations up to the maximum allowed.

**Risk Financing**

The Commonwealth of Puerto Rico purchases commercial insurance covering casualty, theft, tort, claims, and other losses for the PRDOJ, which reimburses the Commonwealth of Puerto Rico for the premium payments made on its behalf. For workmen's compensation, the State Insurance Fund Corporation, a component unit of the Commonwealth of Puerto Rico, provides the workmen's compensation insurance to the PRDOJ's employees.

**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF JUSTICE**  
**NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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**NOTE B - CASH WITH FISCAL AGENT PUERTO RICO DEPARTMENT OF THE TREASURY**

The cash of the PRDOJ is under the control of the Secretary of the Treasury of Puerto Rico pursuant to Act No. 230 of July 23, 1974, as amended, known as the "Puerto Rico Government Accounting Law". Cash with financial institutions consists of deposits in a commercial bank. The Department is authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico. As per the Act No. 69 of August 14, 1991, known as "Law regulating deposits of public funds and to provide for security", it is required that public funds deposited in commercial banks be fully collateralized for the amount deposited in excess of coverage provided by federal depository insurance.

**NOTE C - RETIREMENT PLANS**

The Employees' Retirement System (ERS) of the Government of Puerto Rico and its instrumentalities is a cost-sharing, multiple-employer, defined benefit pension plan sponsored by, and reported as a component unit of, the Commonwealth of Puerto Rico. All regular employees of the PRDOJ under age 55 at the date of employment become members of the system as a condition of the employment.

ERS provides retirement, death and disability benefits pursuant to Act No. 447, approved on May 15, 1951, as amended, which became effective on January 1, 1952. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation. Participants who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least ten (10) years of creditable service or who have attained an age of at least sixty five (65) years and have completed at least ten (10) years of service if hired after April 1990 are entitled to an annual benefit, payable monthly for life.

The annuity, for which a plan member is eligible, is limited to a minimum of \$400 per month and a maximum of 75% of his average compensation.

**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF JUSTICE**  
**NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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**NOTE C - RETIREMENT PLANS (CONTINUED)**

Participants who have completed at least thirty (30) years of creditable service are entitled to receive a Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of their average compensation. Participants who have attained fifty-five (55) years of age will receive 75% of their average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of creditable service.

No benefit is payable if the participant receives a refund of his accumulated contributions. Commonwealth law requires employees hired on or before March 31, 1990 to contribute to the ERS 5.775 percent for the first \$550 of their gross monthly salary and 8.275 percent in excess of \$550.

The contribution for employees hired after April 1, 1990 is 8.275 percent of their gross monthly salary. The PRDOJ is required to contribute 9.275 percent of the participants' gross salaries. The PRDOJ's contribution for the year ended June 30, 2017 was approximately \$11,369,000. Three years on September 24, 1999 the law, which created ERS was amended for the purpose of establishing a defined contribution plan, known as System 2000.

System 2000 became effective on January 1, 2000. PRDOJ employees participating in the defined-benefit plan system at December 31, 1999, had the option to either stay in the defined benefit plan or transfer to System 2000. Those employed by the PRDOJ on or after January 1, 2000 are only allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan; also known as a cash plan. Under this plan, there will be a pool of plan assets, which will be invested by ERS, together with those of the defined-benefit plan. Benefits at retirement age will not be guaranteed. The annuity will be based on a formula which assumes that each year the participants' contribution (with a minimum of 8.275% of the participants' salary up to a maximum of 10%) will be invested as instructed by the participant in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes; (2) earns a rate equal to 75% of the return of ERS's Investment portfolio (net of management fees); or (3) earns a combination of both alternatives.

Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not granted under System 2000. The employers' contributions (9.275% of the employee's salary) will be used to fund the defined benefit plan instead of System 2000. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High Risk Positions and attainment of age 60 otherwise.

**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF JUSTICE**  
**NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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**NOTE C - RETIREMENT PLANS (CONTINUED)**

Furthermore, on April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, which represents a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS, including, but not limited to, the following:

1. For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 will be frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
2. Increases the minimum pension for current retirees from \$400 to \$500 per month.
3. The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.
4. The retirement age for current System 2000 participants is increased gradually from age 60 to age 65.
5. Eliminates the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.
6. The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
7. The employee contribution rate will increase from 8.275% to 10%.
8. For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
9. Eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees is reduced from \$600 to \$200 and is eliminated for future retirees. The summer bonus will be eliminated.
10. Disability benefits will be eliminated and substituted for a mandatory disability insurance policy.
11. Survivor benefits will be modified.

In addition, the Commonwealth has proposed incremental annual contributions from the General Fund per year, for the next 20 years, to increase the liquidity and solvency of the ERS. An appropriation for such annual contribution has been included in the Commonwealth's proposed budget for the fiscal year 2017.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

**COMMONWEALTH OF PUERTO RICO**

**DEPARTMENT OF JUSTICE**

**NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2017**

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**NOTE C - RETIREMENT PLANS (CONTINUED)**

Additional information of ERS is provided in its financial statements for the year ended June 30, 2014 a copy of which can be obtained from the administrator of the Retirement System: P.O. Box 42003, San Juan, Puerto Rico 00940.

**NOTE D - DEFICIENCY OF CASH RECEIPTS OVER CASH DISBURSEMENTS**

Special Revenue Federal fund has outstanding petitions for reimbursement by the federal government at June 30, 2017. Outstanding petitions include funds requested and in process requisitions. Accordingly, management believes the deficiency of cash receipts over cash disbursements should be offset as future reimbursements are collected. Subsequent collections of outstanding petitions of funds at June 30, 2017, amounted to approximately \$13,700,000.

**NOTE E - COMMITMENTS**

The Department rents its facilities through operating lease agreements with the Public Building Authority, an instrumentality of the Commonwealth of Puerto Rico, and with other private entities. Rent paid during the fiscal year ended June 30, 2017, under these lease agreements amounted to approximately \$3,678,000. The rental agreements and payments are controlled by the Puerto Rico Office of Management and Budget. Accordingly, information about payments for rent and future minimum operating leases was not available. This amount should be approximately the same expenditures in the following five fiscal years.

**NOTE F - CONTINGENCIES**

**Litigation**

The Commonwealth of Puerto Rico Act 104 of June 30, 1955, as amended, known as "Claims and Lawsuits against the State", provides that lawsuits initiated against an agency or instrumentality of the Commonwealth of Puerto Rico, including its employees, directors, mayors, and other government officers may be defended by the PRDOJ.

The PRDOJ itself is a defendant in several legal matters that arise in the ordinary course of activities. Any adverse claim is to be paid from the General Fund of the Commonwealth of Puerto Rico.

**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF JUSTICE**  
**NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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**NOTE F - CONTINGENCIES (CONTINUED)**

**Federal Awards**

The PRDOJ administers several federal financial assistance programs funded by the Government of the United States of America.

Expenditures financed by these programs are subject to financial and compliance audits by corresponding federal grantor agencies. If expenditures are disallowed due to noncompliance with program regulations, the PRDOJ may be required to reimburse the federal grantor agency. The PRDOJ is also subject to audits performed by the Office of the Comptroller of Puerto Rico.

**NOTE G - GOING CONCERN CONSIDERATION**

As part of its normal operating activities, and as disclosed in Note A, the PRDOJ depends significantly on appropriations from the Commonwealth of Puerto Rico. As of June 30, 2017, the Commonwealth faces significant budgetary risks and uncertainties, including liquidity risk, which is the risk of not having sufficient financial resources to meet their obligations when they become due. Because of budgetary constraints, the financial support that the Commonwealth of Puerto Rico has provided to the PRDOJ may be affected in the near future.

On May 3, 2017 the Commonwealth filed a petition for bankruptcy with the United States District Court for the District of Puerto Rico under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act, 48 USC *sec.* 2101 *et seq.* (PROMESA). As a consequence, certain actions against the Commonwealth were pursuant to the provisions of Section 301 (a) of PROMESA, 48 USC *sec.* 2161(a), which refers to the automatic stay provided by sections 362 and 922 of the United States Bankruptcy Code, 11 USC 362 and 922. The filing of the petition for bankruptcy has the immediate and direct effect of stating all civil actions that any natural person or legal entity may have initiated against the Government of Puerto Rico and its instrumentalities, while the bankruptcy proceedings are pending before the federal court. 11 USC sections 362(a), 922(a); 48 USC section 2161(a).

**NOTE H - SUBSEQUENT EVENTS**

The PRDOJ has evaluated subsequent events through August 15, 2018, the date of the financial statement was available to be issued.

**Government Reorganization**

Act No. 20 of April 10, 2017 and effective on October 7, 2017, known as the "Puerto Rico Department of Public Safety Act", reorganized the Government of Puerto Rico's safety system. Act No. 20 consolidated the services Puerto Rico Police, Fire Fighters, Medical Emergencies,

**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF JUSTICE**  
**NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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**NOTE H - SUBSEQUENT EVENTS (CONTINUED)**

State Agency for Emergency Management, Emergency System 9-1-1, Forensic Science Institute, and the Bureau of Special Investigations (NIE, Spanish acronym).

The Bureau of Special Investigations was created to promote a more effective, efficient, and functional security system by merging the effort of seven (7) agencies into one unit of public security. The budgeted amount for NIE is approximately 10% of PRDOJ annual budget (\$9,000,000) for the year 2017.

**Pensions**

On August 23, 2017, Puerto Rico Government enacted Act 106, "Law to Guarantee the Payment to Our Pensioners and Establish a New Plan of Defined Contributions for Public Employees" with the purpose to reform the current Retirement System.

This legislation has passed pension reforms that include making payments to the depleted defined benefit system from general revenues, and creating a defined contribution plan for active workers and new hires. This Act declared as public policy the protection of the pension funds of all public retirees. According to the joint resolution No. 188 of 2017, and certified by the Fiscal Supervision Board on July 13, 2017, the Puerto Rico Government has become the direct payer of retirees.

Act 106 eliminates the PRDOJ contributions as disposed on joint resolutions No. 186, 187 and 188 of 2017. The Employees' Retirement System should contribute their available funds and the net amount of the liquidation of their assets for the payment of accrued pensions. The general fund of Puerto Rico Government assumes and guarantees the payments of the pensions through the new "Pay Go" system accounts, which are under the custody of the Department of Treasury of Puerto Rico. The Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF, Spanish acronym) oversees the retirement systems and their transition to the compliance of the requirements of Act 106.

**Catastrophe**

During September 2017, the Island was impacted by two hurricanes, which affected the operations of the PRDOJ. These hurricanes impacted almost all networks of communications, supplies, electricity, water, gasoline and diesel, among others, diminishing the operations of most of governmental services and private businesses in Puerto Rico. The PRDOJ suffered certain damages to its rented property and an operating interruption causing the PRDOJ to relocate its operations.

## **SUPPLEMENTARY INFORMATION**



**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF JUSTICE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

<b>Federal Grantor/Pass-Trough Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Passed-through to Subrecipients</b>	<b>Federal Expenditures</b>
<b>United States Department of Justice</b>			
<b>Pass-through the Office of the Commissioner</b>			
<b>Municipal Affairs of Puerto Rico</b>			
Juvenile Accountability Block Grants	16.523	\$ -	\$ 15,900
Crime Victim Assistance	16.575	13,815,420	14,291,697
Crime Victim Compensation	16.576	-	467,061
<b>Pass-through Procurement for Woman Office of Puerto Rico</b>			
Violence Against Women Formula Grants	16.588	-	369,487
Edward Byrne Memorial Justice Assistance Grant Program	16.738	3,062,764	3,352,864
Support for Adam Walsh Act Implementation Grant Program	16.750	-	143,114
Prison Rape Elimination Act (PREA)	16.735	-	72,675
John R. Justice Prosecutors and Defenders Incentive Act	16.816	-	39,209
<b>Total United States Department of Justice</b>		<u>16,878,184</u>	<u>18,752,007</u>
<b>Department of the Treasury</b>			
Equitable Sharing	21.016	<u>-</u>	<u>37,872</u>
<b>United States Department of Agriculture</b>			
<b>Pass-through the Department of Education of Puerto Rico</b>			
Child and Adult Care Food Program	10.558	<u>-</u>	<u>8,534</u>
<b>Total Expenditures of Federal Awards</b>		<u>\$ 16,878,184</u>	<u>\$ 18,798,413</u>

See accompanying notes to schedule of expenditures of federal awards.

**COMMONWEALTH OF PUERTO RICO – DEPARTMENT OF JUSTICE**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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**NOTE A - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the PRDOJ and is presented on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America, as further explained in Note A to the Statement of Cash Receipts and Disbursements. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200 (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the Statement of Cash Receipts and Disbursements. The PRDOJ entity is defined in Note A to the Statement of Cash Receipts and Disbursements.

**NOTE B**

The PRDOJ receives some of its federal awards in the form of pass-through awards from certain agencies of the Commonwealth of Puerto Rico as indicated in the Schedule.

**NOTE C**

The PRDOJ has not elected to use the 10 percent de-minis indirect cost rate allowed under the Uniform Guidance.

**NOTE D**

Expenditures of federal awards are reported in the PRDOJ's statement of cash receipts and disbursements in a separate column.



**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 *GOVERNMENT AUDITING STANDARDS***

Wanda Vázquez Garced, Esq.  
Secretary of the Commonwealth of  
Puerto Rico Department of Justice  
San Juan, Puerto Rico

**Report on Compliance for Each Major Federal Program**

We have audited, 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, the statement of cash receipts and disbursements of the Commonwealth of Puerto Rico Department of Justice (the PRDOJ), for the year ended June 30, 2017, and the related notes to the financial statement, and have issued our report thereon dated August 15, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the PRDOJ'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the PRDOJ's internal control. Accordingly, we do not express an opinion on the effectiveness of the PRDOJ's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the PRDOJ's financial statement is free from 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

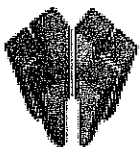
#### Purpose of this Report

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 entity's internal control or on compliance. This report is an integral part of an audit performed 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. This report is intended solely for the information and use of the management and officials of the Puerto Rico Department of Justice, the Commonwealth of Puerto Rico, federal awarding agencies, pass-through entities, and other regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

August 15, 2018

Stamp Number E358670  
of Puerto Rico CPA Society  
has been affixed to the  
original report

*Aquino, De Cordova, Alfaro & Co., LLP*  
*by Edward Gordon-Green*  
*Lic. # 3171*



**Aquino, De Cordova, Alfaro & Co., LLP**

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Wanda Vázquez Garced, Esq.  
Secretary of the Commonwealth of  
Puerto Rico Department of Justice  
San Juan, Puerto Rico

**Report on Compliance for Each Major Federal Program**

We have audited the Commonwealth of Puerto Rico Department of Justice (the PRDOJ)'s compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have direct and material effect on each of PRDOJ's major federal programs for the year ended June 30, 2017. PRDOJ's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the PRDOJ'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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance 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 PRDOJ'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 major federal programs. However, our audit does not provide a legal determination of the PRDOJ's compliance.

#### Opinion on Each Major Federal Program

In our opinion, the PRDOJ complied, in all material respects, with the types of compliance referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

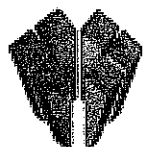
#### Report on Internal Control over Compliance

Management of the PRDOJ 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 PRDOJ'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 the Uniform Guidance, 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 PRDOJ's internal control over compliance.

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

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

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

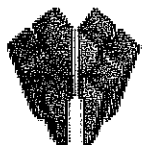


The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. This report is intended solely for the information and use of the management and officials of the Puerto Rico Department of Justice, the Commonwealth of Puerto Rico, federal awarding agencies, pass-through entities, and other regulatory agencies. Accordingly, this report is not suitable for any other purpose.

August 15, 2018

Stamp Number E358671  
of Puerto Rico CPA Society  
has been affixed to the  
original report

*Aquino, De Córdova, Alfaro & Co., LLP*  
*by Edward Smiler-Green*  
*lic. # 3171*



**Aquino, De Córdova, Alfaro & Co., LLP**

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

**COMMONWEALTH OF PUERTO RICO – DEPARTMENT OF JUSTICE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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**Part I - Summary of Auditor's Results**

**Financial Statement**

Type of auditor's report issued:

**Unqualified**

Internal control over financial reporting:

a. Material weakness identified?

\_\_\_\_\_ Yes \_\_\_\_\_ X No

b. Significant deficiency identified that are not  
considered to be material weaknesses?

\_\_\_\_\_ Yes \_\_\_\_\_ X No

c. Noncompliance material to financial statement

\_\_\_\_\_ Yes \_\_\_\_\_ X No

**Federal Awards**

a. Type of auditor's report issued on compliance for major programs:

**Unmodified**

b. Internal control over major programs:

- Material weakness (es) identified?

\_\_\_\_\_ Yes \_\_\_\_\_ X No

- Significant deficiency (ies) identified that are not  
considered to be material weaknesses?

\_\_\_\_\_ Yes \_\_\_\_\_ X No

c. Any audit findings disclosed that are required to be  
reported in accordance with FR § 200.516 (a)?

\_\_\_\_\_ Yes \_\_\_\_\_ X No

d. Identification of major programs:

**Name of Federal Program or Cluster**

**CFDA Numbers**

Victim of Crime Act Victim Assistance Program

16.575

Edward Byrne Memorial Justice Assistance Grant Program

16.738

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

**\$750,000**

Auditee qualified as low-risk auditee

\_\_\_\_\_ Yes \_\_\_\_\_ X No



**COMMONWEALTH OF PUERTO RICO – DEPARTMENT OF JUSTICE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2017**

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**Part II - Financial Statement Findings Section**

There are no significant deficiencies for the year ended June 30, 2017.

**Part III – Federal Award Findings and Questioned Costs**

There are no Federal Awards Findings and Questioned Costs for the year ended June 30, 2017.

**COMMONWEALTH OF PUERTO RICO – DEPARTMENT OF JUSTICE**  
**SCHEDULE OF PRIOR YEAR FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

<b>Finding Reference Number</b>	<b>Finding Description</b>	<b>Questioned Cost</b>	<b>Finding Current Status</b>
<b>Fiscal year 2016</b>			
2016-001	Material Noncompliance and Material Weakness  Act No. 230 of July 23, 1974, as amended, Commonwealth of Puerto Rico Accounting Law establishes the accounting procedures and internal controls that should be followed by the PRDOJ, including adequate documentation and records of receipt and disbursement transactions.	None	Corrected
2016-002, and 2016-003	Allowable Costs Requirements Federal Regulations under the Uniform Requirements Section 200.403 establishes factors affecting allowability of costs, including allowable cost must be adequately documented. No similar findings were noted in 2017 audit.	None	Corrected
2016-004	Subrecipient Monitoring The PRDOJ had not established of the receipt, review, and evaluation of single audit reports of subrecipients. No similar findings were noted in 2017 audit.	None	Corrected
<b>Fiscal year 2015</b>			
2015-001, and 2015-007	Material Noncompliance and Material Weakness because funds are under reimbursement basis, not advance. Also, the finding is no longer valid due to the following:  (1)Two years have passed since the audit report in which the finding occurred was submitted to the FAC;  (2)The federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and  (3)A management decision was not issued.	None	No longer valid

COMMONWEALTH OF PUERTO RICO – DEPARTMENT OF JUSTICE  
SCHEDULE OF PRIOR YEAR FINDINGS – (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2017

Finding Reference Number	Finding Description	Questioned Cost	Finding Current Status
2015-002, and 2015-008	Material Noncompliance and Material Weakness The finding is no longer valid due to the following: (1)Two years have passed since the audit report in which the finding occurred was submitted to the FAC;  (2)The federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and  (3)A management decision was not issued.	\$ 74,915	No longer valid
2015-003, and 2015-009	Material Noncompliance and Material Weakness The finding is no longer valid due to the following: (1)Two years have passed since the audit report in which the finding occurred was submitted to the FAC;  (2)The federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and  (3)A management decision was not issued.	\$ 12,000	No longer valid
2015-004, and 2015-011	Material Noncompliance and Material Weakness The finding is no longer valid due to the following: (1)Two years have passed since the audit report in which the finding occurred was submitted to the FAC;  (2)The federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and  (3)A management decision was not issued.	None	No longer valid
2015-005, and 2015-012	Material Noncompliance and Material Weakness The finding is no longer valid due to the following: (1)Two years have passed since the audit report in which the finding occurred was submitted to the FAC;  (2)The federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and  (3)A management decision was not issued.	None	No longer valid

COMMONWEALTH OF PUERTO RICO – DEPARTMENT OF JUSTICE  
SCHEDULE OF PRIOR YEAR FINDINGS – (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2017

Finding Reference Number	Finding Description	Questioned Cost	Finding Current Status
2015-006 and 2015-014	<p>Material Noncompliance and Material Weakness  The finding is no longer valid due to the following:</p> <p>(1)Two years have passed since the audit report in which the finding occurred was submitted to the FAC;</p> <p>(2)The federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and</p> <p>(3)A management decision was not issued.</p>	None	No longer valid
2015-007	<p>Material Noncompliance and Material Weakness  The finding is no longer valid due to the following:</p> <p>(1)Two years have passed since the audit report in which the finding occurred was submitted to the FAC;</p> <p>(2)The federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and</p> <p>(3)A management decision was not issued.</p>	None	No longer valid
2015-010	<p>Equipment and Real Property Management  The finding is no longer valid due to the following:</p> <p>(1)Two years have passed since the audit report in which the finding occurred was submitted to the FAC;</p> <p>(2)The federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and</p> <p>(3)A management decision was not issued.</p>	None	No longer valid

**COMMONWEALTH OF PUERTO RICO – DEPARTMENT OF JUSTICE**  
**SCHEDULE OF PRIOR YEAR FINDINGS – (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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<b>Finding Reference Number</b>	<b>Finding Description</b>	<b>Questioned Cost</b>	<b>Finding Current Status</b>
2015-013	<p>Subrecipient Monitoring</p> <p>The finding is no longer valid due to the following:</p> <p>(1)Two years have passed since the audit report in which the finding occurred was submitted to the FAC;</p> <p>(2)The federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and</p> <p>(3)A management decision was not issued.</p>	None	No longer valid

Responsible Person views:

No matters are reportable.

Responsible Person:

Christie Machin  
Special Assistant, Federal  
Affairs



# GOVERNMENT OF PUERTO RICO

Department of Justice

Ricardo A. Rosselló Nevares  
Governor

Wanda Vázquez Garced  
Attorney General

Commonwealth of Puerto Rico Department of Justice  
Single Audit June 30, 2017

Finding	Corrective Action Plan
None	Not needed

