

COMMONWEALTH OF PUERTO RICO  
**PUERTO RICO POLICE**

**FINANCIAL STATEMENT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(WITH THE ADDITIONAL REPORTS REQUIRED BY  
THE GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133)



***CPA DIAZ-MARTINEZ, PSC***  
**CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS**

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**PART I**  
**FINANCIAL**

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## INDEPENDENT AUDITOR'S REPORT

Mr. José L. Caldero López  
Superintendent  
Puerto Rico Police 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 **Puerto Rico Police of the Commonwealth of Puerto Rico (PRP)**, which comprise Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds for the fiscal year ended June 30, 2014, 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 statements 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.

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 **PRP'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 **PRP'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 audit opinions.

**INDEPENDENT AUDITOR'S REPORT**  
**Mr. José L. Caldero López, Superintendent**  
**Puerto Rico Police of the**  
**Commonwealth of Puerto Rico**  
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***Opinions***

In our opinion, the financial statement referred to previously present fairly, in all material respects, the cash receipts and disbursements of **PRP** governmental funds, and the respective cash basis net changes thereof for the year ended June 30, 2014, 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 **PRP** 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 **PRP**. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2014, 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 **PRP** 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 **PRP** may be subject to possible federal claims for refunds of grants monies.

***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, the information is fairly stated in all material respects, in relation to the financial statement as a whole.

**INDEPENDENT AUDITOR'S REPORT**  
**Mr. José Caldero López, Superintendent**  
**Puerto Rico Police of the**  
**Commonwealth of Puerto Rico**  
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**Other Reporting Required by *Governmental Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2015 on our consideration of **PRP'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 **PRP'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  
January 7, 2015

Stamp No. E135438 was affixed to  
the original report.

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COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO POLICE

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
 AND NET CHANGES – GOVERNMENTAL FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>General Fund</u>	<u>Special Account Fund</u>	<u>Federal Grants Fund</u>	<u>Total Governmental Funds</u>
<b>RECEIPTS:</b>				
Appropriations from the Commonwealth of Puerto Rico .....	\$779,818,567	\$ 72,672,558	\$ -	\$852,491,125
Federal Grants.....	<u>-</u>	<u>-</u>	<u>5,945,259</u>	<u>5,945,259</u>
<b>Total Receipts .....</b>	<u><b>779,818,567</b></u>	<u><b>72,672,558</b></u>	<u><b>5,945,259</b></u>	<u><b>858,436,384</b></u>
<b>DISBURSEMENTS:</b>				
Management and General Administration .....	5,156,483	37,610,064	-	42,766,547
Surveillance and Security in Public Residential. FURA .....	16,692,573	-	-	16,692,573
Criminal Investigations .....	16,616,868	519,591	-	17,136,459
Human Resources.....	84,766,450	2,340,476	4,596,582	91,703,508
Community Relations .....	16,150,903	19,944,797	-	36,095,700
Auxiliary Services of Operations.....	6,054,277	24	1,510,592	7,564,893
Police Surveillance .....	22,864,748	8,198,991	-	31,063,739
Governor's Security .....	558,717,958	643,579	637,020	559,998,557
911 Emergency Services.....	2,380,739	-	-	2,380,739
Drug-Free Zone.....	8,000,264	3,331,164	-	11,331,428
Control and Supervision of Transit .....	7,220,836	-	-	7,220,836
<b>Total Disbursements .....</b>	<u><b>777,777,425</b></u>	<u><b>72,588,686</b></u>	<u><b>7,066,064</b></u>	<u><b>857,432,175</b></u>
<b>EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENT .....</b>	<u><b>\$ 2,041,142</b></u>	<u><b>\$ 83,872</b></u>	<u><b>(\$ 1,120,805)</b></u>	<u><b>\$ 1,004,209</b></u>

The accompanying *Notes to Financial Statement* are an integral part of this Statement.

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## 1. FINANCIAL REPORTING ENTITY

### A. Organization

The Puerto Rico Police (PRP) is an agency of the Commonwealth of Puerto Rico, governed by Act Number 53 of June 10, 1996, as amended. PRP was created for the protection of citizens and properties, to maintain and keep the public order, to observe and secure the protection to the civil rights of the citizens, to avoid the discrimination and to pursue the crime and enforce to obedience of laws and municipal ordinances. The PRP's Superintendent was designated by the Governor of the Commonwealth of Puerto Rico.

### B. Financial Reporting Entity

PRP is for financial reporting purposes a part of the Commonwealth of Puerto Rico. Because PRP 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. PRP's 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 use of PRP's management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Financial Statement – Measurement Focus and Basis of Accounting

PRP'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 2013-2014. 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 PRP's financial statement. No long-term debt is reported in PRP's financial statement. No accrued compensated absences are reported in PRP's financial statement. Compensated absences resulting from cash transactions are reported as cash disbursements in the governmental funds column upon cash payment.

The accounts of PRP 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 PRP 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 PRP reports the following major governmental funds:

- *General Fund* – The general fund is the main operating fund of PRP. It is used to account for all financial resources except those required to be accounted for separately.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – continuation

- *Special Account Fund* – This fund is used to account for resources or funds that are deposited for specific purposes in accordance with its applicable laws. They can come from fees for services, donations from citizens and private entities, other collections of any governmental entities, and authorizations by the Legislature of the Commonwealth of Puerto Rico, which are designated to achieve specific purposes. Expenditures charged to these accounts are authorized by legislation previously approved.
- *Federal Grants Fund* – Accounts for the financial resources related to the Federal Grant Awards administered by PRP.

The major funds are presented in the following individual programs to account for the governmental resources allocated to them for the purpose of carrying on specified activities in accordance with laws, regulations, and other restrictions:

- *Management and General Administration* – This fund is used to account for resources and expenditures related to the supervision and coordination of all services and operations from the central level to each police headquarters around the Island.
- *Surveillance and Security in Public Residential* – This fund is used to account for resources and expenditures associated with the service of surveillance and security in public residential to avoid and eliminate groups that engage in the traffic of drugs and other criminal activities in those public facilities.
- *FURA* – This fund is used to account for resources and expenditures associated with the implementation of plans and actions on the ground, in the air, and in coastal waters to identify, intercept and interdict individuals and vessels in criminal activities. Actions are undertaken in coordination with other law enforcement agencies.
- *Criminal Investigations* – This fund is used to account for resources and expenditures related to the investigation of drug trafficking and the use of drugs, organized crime, carjacking, fires and the use of illegal explosives, and Type 1 and other offences.
- *Human Resources* – This fund is used to account for resources and expenditures for administrative services of selection, training and professional development of the personnel of the PRP.
- *Community Relations* – This fund is used to account for resources and expenditures related to the coordination between the Police Force, and the community to develop activities by establishing communication with citizens' groups and organizations to expand the collaboration in security programs and public surveillance.
- *Auxiliary Services of Operations* – This fund is used to post resources and costs related to auxiliary activities and complementary police services to combat the criminal incidence. In addition, to administer laws and regulations for the issuance of certificates of good behavior certificates, licenses and permits for the use of weapons and private detective schools.
- *Police Surveillance* – This fund is used to account for resources and expenditures related to services for the surveillance and protecting the security of the community.
- *Governor's Security* – This fund is used to account for resources and expenditures related to the security services and protection of past and present Governors, their families and the Luis Muñoz Marin Foundation.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – continuation

- *911 Emergency Services* – This fund is used to account for resources and expenditures related to the regulation, direction and administration of the emergency service calls to attend the services requested for emergencies.
- *Drug-Free Zone* – This fund is used to account for resources and expenditures related to the program responsible for the prevention, protection and attention to health, security and welfare of schools' students and personnel.
- *Control and Supervision of Transit* – This fund is used to account for resources and expenditures to maintain public order, prevent accidents, and maintain an appropriate level of safety in the public highways.

***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 PRP. The procedures followed in approving the annual budget is as follows:

- a. Between November and December PRP 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.

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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – continuation

**C. Risk Financing**

PRP 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 PRP are covered under various surety bonds. Management believes such coverage is sufficient to preclude any significant uninsured losses to PRP.

PRP carries insurance coverage for death and bodily injuries caused by the motor vehicles accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACCA), a component unit of the Commonwealth of Puerto Rico. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to AACCA.

PRP obtains workers compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Cost of insurance allocated to PRP and deducted from the state appropriation for the year ended June 30, 2014 amounted to \$3,719,000.

PRP obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth of Puerto Rico (DOLHR). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because work or employment-related accidents or non-occupational disability and drivers' insurance premiums are paid to DOLHR on a cost reimbursement basis.

**D. Accounting for Pension Costs**

PRP adopted the provisions of Codification of Governmental Accounting and Financial Reporting Standard Section Pe5, Pension Plans – Defined Benefit, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

PRP 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, with a liability recorded for any unpaid required contributions.

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) and System 2000, a multiemployer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of PRP participate. PRP 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).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

### E. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following pronouncements that have effective dates after June 30, 2014:

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 Disclosures—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. 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 primary government of the Commonwealth, as well as its component units and the municipalities, are considered “cost-sharing” employers of the Retirement Systems; therefore, they would report its allocated share of the Commonwealth’s resulting Net Pension Liability from Statement 67 as follows:

- Based on their respective individual proportion to the collective net pension liability of all the governments participating
- The proportion should be consistent with the method used to assess contributions (percentage of payroll). The use of their respective long term expected contribution effort to Retirement Systems divided by those of all governments in the plan, is encouraged.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (FY2014-2015). Earlier application is encouraged. The Commonwealth and the Retirement Systems are in the process of evaluating the impact of this Statement on its agencies and component units and also on the municipalities of the Commonwealth. The information to adopt this Statement will be based on the new actuarial reports to be prepared under the new Statement No. 67.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government 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 distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values.

This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013 (FY 2014-2015), and should be applied on a prospective basis.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date— an 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 68, which is required to be applied in fiscal years beginning after June 15, 2014 (FY 2014-2015).

PRP has not yet determined the effect these statements will have on PRP'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 PRP 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 PRP in such pooled cash accounts are available to meet its current operating requirements.

PRP's cash at June 30, 2014 are demand deposits in the Government Development Bank of Puerto Rico (GDB), and are recorded at cost, which approximates fair value.

**4. FUND ADVANCES**

PRP 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, 2014, funds were advanced to PRD for this purpose.

**5. LEASE COMMITMENTS**

PRP 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. Rent paid during the year that ended on June 30, 2014 under these lease agreements amounted approximately to \$35.7 million. Information about payments for rent under operating leases future minimum was not available. This amount should be approximately the same expenditures in the following five fiscal years.

continue

## 6. PENSION PLAN

### *Description of the Plan*

Employees of PRP participate in the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration. 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. The ERS is a pension trust of the Commonwealth. 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. The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

As of June 30, 2013, the ERS has an unfunded actuarial accrued liability (UAAL) of approximately \$22,981 million, representing a 3.1% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, it is estimated that starting in fiscal year 2015, the ERS's assets will be less than its obligations (including bonds payable but excluding its UAAL) resulting in a deficit net position. In addition, annual cash flow estimates for the foreseeable future are presently estimated to continue to reduce the net position unless other measures are taken.

The estimate of when the ERS's net position will become a deficit and when its assets would be exhausted is based on significant assumptions, including the rate of return on investments, the amount and timing of collections from the Commonwealth for the member, employer contributions and the employer additional contribution (Act No. 32), which as discussed below, was estimated in \$120.0 million annually, as well as the estimated participant benefits and the ERS's administrative expenses to be paid each year.

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries. An appropriation for such additional contribution of approximately \$120 million was included in the Commonwealth's budget for the fiscal year 2014. However, as a result of budgetary constraints at the present time approximately \$90.0 million of this amount were not collected as expected during fiscal year 2014. Further, this additional contribution was reduced to \$28.2 million for the Commonwealth's proposed budget for the fiscal year 2015.

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the ERS and its additional contribution as provided by Act No. 32, for the upcoming years, may continue to be adversely affected, and could also affect the payment of benefits and the repayment of the ERS's bond payable.

Act No. 70 established a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 also establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447 or age 65 for members under Act 1, or the date the plan member would have completed 30 years of service had the member continued its employment. The ERS will be responsible for benefit payments afterwards. In addition, the General Fund and the public corporations will also be required to make the required contributions to the ERS. As of June 30, 2013, the ERS has recorded a liability of approximately \$16 million for its responsibility as an employer under Act No. 70.

**6. PENSION PLAN – continuation**

Furthermore, 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.)
- (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.

***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.

**6. PENSION PLAN – continuation**

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).

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.

**6. PENSION PLAN – continuation**

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 (as of June 30, 2013) for the participants shall be seventy-five percent (75%) of the average compensation.

*Merit Annuity* – Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation. As a result of the enactment of Act No. 3 of April 4, 2013, effective July 1, 2013, merit annuities will no longer be available to participants who joined the ERS after April 1, 1990.

*Deferred Retirement Annuity* – A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the ERS are left within the ERS until attainment of 58 years of age.

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.

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. 3 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:

continue

**6. PENSION PLAN – continuation**

- (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.
- (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.

**6. PENSION PLAN – continuation**

- (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.

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.

continue

6. PENSION PLAN – continuation

***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:

*Coordinated Plan* – Prior to July 1, 2013 on the coordinated plan, the participating employee contributes 5.775% for the first \$6,600 of salary plus 8.275% for the excess over \$6,600. For fiscal 2013-2014 the contribution was 7.00% for the first \$6,600 of salary plus 10.00% for the excess over \$6,600. For fiscal 2014-2015 the contribution was 8.50% for the first \$6,600 of salary plus 10.00% for the excess over \$6,600. After July 1, 2015 the contribution was 10.00% of salary. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- \$165 per month if retired with 55 years of age and 30 years of credited service.
- \$110 per month if retired with less than 55 years of age and 30 years of credited service.
- All other between \$82 and \$100 per month.
- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over \$165 per month.

*Non-Coordinated Plan (Supplementation Plan)* – Prior to July 1, 2013 on the non-coordinated plan, the participating employee contributes 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits. After July 1, 2015 the contribution was 10.00% of 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.
- (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.

continue

**6. PENSION PLAN – continuation**

- (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)**

On July 6, 2011, the Commonwealth enacted Act No. 116, increasing the employers’ contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2011-2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

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
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.

6. PENSION PLAN – continuation

***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.

***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;

continue

6. PENSION PLAN – continuation

- (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.

**Annual Contribution**

The PRP’s contributions during those years are recognized as total pension expenditures/expenses in the category of administration as follow:

FISCAL YEAR	DEFINED BENEFIT	HYBRID PROGRAM	ACT NO. 3
2014	\$ 2,886,277	\$ 1,258,743	\$ 42,838,888
2013	37,814,925	15,692,052	-
2012	39,465,958	14,632,571	-

Total employee contributions to the above-mentioned plans during the year ended June 30, 2014, 2013 and 2012 amounted to approximately \$141,858,676.

These amounts represented the 100% of the required contribution for the corresponding 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, PRP 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 PRP 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, 2014, disclosed an instance of noncompliance with applicable laws and regulations that were considered to be material weakness.

Of the federal expenditures authorized for the fiscal years 2010-2011 and 2011-2012, the auditors determined that cost amounting \$249,584 are disallowed. The disallowed costs are pending of final resolution of the awarding agencies.

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

### *Litigation*

PRP 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 the laws of the Commonwealth of Puerto Rico, the PRP is fully represented by the Puerto Rico Department of Justice in defense of all legal cases against the PRP. 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 PRP.

## 8. RELATED PARTY TRANSACTIONS

PRP has the following transactions with governmental units:

- ◆ PRP paid to Puerto Rico Electric Power Authority the amount of \$12,453,000 for services provided during the fiscal year ended June 30, 2014.
- ◆ PRP paid to Public Buildings Authority of Puerto Rico the amount of \$35.7 million for operating leases of building facilities during the fiscal year ended June 30, 2014.
- ◆ PRP paid to Puerto Rico Industrial Development Company the amount of \$80,712 for operating leases of building facilities during the fiscal year ended June 30, 2014.
- ◆ PRP paid to Puerto Rico Aqueduct and Sewer Authority the amount of \$1,620,000 for services provided during the fiscal year ended June 30, 2014.
- ◆ PRP paid to Puerto Rico General Services Administration the amount of \$22,232,883 for gasoline, diesel, and motor vehicles maintenance services provided during the fiscal year ended June 30, 2014.

## 9. NEW ACCOUNTING STANDARDS

The provisions of the following Governmental Accounting Standards Board (GASB) Statement have been implemented for the year ended June 30, 2014:

GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement, and to defined contribution plans that provide postemployment benefits other than pensions.

The major fundamental change, among others related to the application and determination of certain measurement assumptions in valuing pension plans, is switching from the existing “funding-based” accounting model, where currently the Annual Required Contribution (ARC) is compared to the actual payments made and that difference determines the Net Pension Obligation; to an “accrual basis” model similar to current FASB standards, where the Total Pension Obligation (Actuarially determined) is compared to the Net Plan Position (or assets) and the difference represents the Net Pension Liability. This particular Statement will be applicable to the three Retirement Systems of the Commonwealth of Puerto Rico, not to the rest of the Commonwealth’s agencies or any of the Commonwealth’s component units. The impact of this Statement will be establishing its new net pension liability for the Commonwealth to an amount resembling the existing actuarial deficiency in the aforementioned Retirement Systems which at June 30, 2013 amounted to approximately \$34 billion.

Also, PRP adopted *GASB Statement No. 65, Items Previously Reported as Assets and Liabilities* as of June 30, 2014, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as revenues and expenses. The adoption of this statement require that debt issuance costs be recognized as an expenses in the period incurred. The adoption of this standard did not have any financial impact on the financial statement.

GASB Statement No. 70 (“GASB 70”), *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement.

A nonexchange financial guarantee is a credit enhancement or assurance offered by a guarantor without receiving equal or approximately equal value in exchange. The guarantor agrees to pay an obligation holder in the event that the issuer of the obligation is not able to make its required payments to the obligation holder. Nonexchange financial guarantees can include guarantees by a state for bonds issued by local governments within that state or guarantees of mortgage loans to individuals, if equal or approximately equal value is not received in exchange.

GASB 70 does not have any impact on PRP’s financial statement.

**10. SUBSEQUENT EVENT**

PRP has evaluated subsequent events through January 7, 2015, 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**

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**PART II**

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

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COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO POLICE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	TOTAL EXPENDITURES
U.S. Postal Service:			
Direct Program:			
US Postal Inspection Service Robbery Task Force.....	XX.XX1		\$ 42,215
US Postal Crimes Task Force .....	XX.XX2		<u>26,328</u>
Total U.S. Postal Service.....			<u>68,543</u>
U.S. Department of Justice:			
Direct Program:			
Bulletproof Vest Partnership Program ( <b>See Note 5</b> ) ...	16.607		359,172
Public Safety Partnership and Community Policing Grants .....	16.710		1,510,592
FBI – Criminal Investigation Task Force.....	16.XX1		1,170,252
Organized Crime Drug Enforcement .....	16.XX2		77,073
Drug Enforcement Agency – Task Force.....	16.XX3		867,412
US Marshall Service Task Force .....	16.XX4		195,172
AFT Task Force.....	16.XX5		88,031
Drug Courts Program .....	16.XX6		1,818
High Intensity Drug Trafficking Area .....	16.XX7		<u>85,897</u>
Subtotal U.S. Department of Justice Direct Programs.			<u>4,355,419</u>
Pass Through the Procurement for Woman Office of Puerto Rico (Cluster):			
Stop Violence against Woman Formula Grants.....	16.588	2009WFAX0052SUB 2010WFAX0070SUB	205,870
<b>ARRA</b> – Stop Violence against Woman Formula Grants.....	16.588	2009-EF-S6-0059	<u>71,977</u>
Subtotal U.S. Department of Justice – Procurement for Woman Office of Puerto Rico (Cluster) .....			<u>277,847</u>
Pass Through the Autonomous Municipality of San Juan, Puerto Rico:			
Project Safe Neighborhood .....	16.609	2012-001568	<u>49,495</u>

continue

**COMMONWEALTH OF PUERTO RICO  
PUERTO RICO POLICE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<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 Justice: (continuation)			
Pass Through the Puerto Rico Department of Justice:			
Edward Byrne Memorial Justice Assistance.....	16.738	2009-DJ-BX-1102 2010-DJ-BX-0636	<u>\$ 152,036</u>
Total U.S. Department of Justice.....			<u>4,834,797</u>
U.S. Department of State:			
Direct Program:			
Diplomatic Security Service.....	19.XX1		<u>17,134</u>
Total U.S. Department of State.....			<u>17,134</u>
U.S. Department of Transportation:			
Pass Through the Puerto Rico Traffic Safety Commission:			
State and Community Highway Safety.....	20.600	2014-000024, 2014-000063, and 2014-000069	<u>321,870</u>
Total U.S. Department of Transportation.....			<u>321,870</u>
U.S. Department of Treasury:			
Direct Program:			
IRS – Criminal Investigations Task Force.....	21.XX1		<u>89,026</u>
Total U.S. Department of Treasury.....			<u>89,026</u>
U.S. Department of Health and Human Services:			
Direct Program:			
Food and Drug Administration – Criminal Investigation Task Force.....	93.XX1		80,222
SSA – Cooperative Disability Investigations.....	93.XX2		<u>48,251</u>
Total U.S. Department of Health and Human Services.....			<u>128,473</u>

continue

**COMMONWEALTH OF PUERTO RICO  
PUERTO RICO POLICE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<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 Homeland Security:			
Direct Program:			
National Explosive Detection Canine Team Program..	97.072		\$ 373,355
Immigration and Customs Enforcement Task Force ...	97.XX1		1,126,971
US Border Patrol Task Force .....	97.XX3		4,051
Caribbean Air & Marine Task Force .....	97.XX4		91,261
US Secret Service Task Force .....	97.XX5		10,483
National Security State Information Center .....	97.XX6		<u>100</u>
Total U.S. Department of Homeland Security.....			<u>1,606,221</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS .....</b>			<b><u>\$7,066,064</u></b>

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 Puerto Rico Police of the Commonwealth of Puerto Rico (PRP). 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 PRP, it is not intended to and does not present the financial position, or change in net assets of PRP.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statement. PRP 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. BULLETPROOF VEST PARTNERSHIP PROGRAM – US DEPARTMENT OF JUSTICE (CFDA NUMBER 16.607)

As per the Bulletproof Vest Partnership Grant Act of 1998, Public Law 105-181, June 16, 1998, and Bulletproof Vest Program Act of 2000, Public Law 106-517, this program is excluded from coverage under OMB Circular No. A-102 and OMB Circular No. A-110. Also, this program is excluded from coverage under OMB Circular No. A-133. Accordingly, this program was not evaluated as part of the determination of major program.

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

Expenditures of federal awards are reported in PRP's Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Fund in the Federal Grants Fund column.

**END OF NOTES**



**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**

**Mr. José L. Caldero López**  
**Superintendent**  
**Puerto Rico Police of the**  
**Commonwealth of 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 **Puerto Rico Police of the Commonwealth of Puerto Rico (PRP)**, as of and for the fiscal year ended June 30, 2014, and the related notes to financial statement, which collectively comprise **PRP's** financial statement, and have issued our report thereon dated January 7, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered **PRP'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 **PRP's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **PRP'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 deficiency in internal control that we consider to be material weakness.

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 **PRP'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 item 2014-001 to be material weakness.

**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**

**Mr. José L. Caldero López, Superintendent  
Puerto Rico Police of the Commonwealth of Puerto Rico**

Page 2

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether PRP'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 item 2014-001.

**PRP's Response to Findings**

PRP's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. PRP'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 PRP'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  
January 7, 2015

Stamp No. E135439 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*

Mr. José L. Caldero López  
Superintendent  
Puerto Rico Police of the  
Commonwealth of Puerto Rico

### Report on Compliance for Each Major Federal Program

We have audited **Puerto Rico Police of the Commonwealth of Puerto Rico (PRP)**'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 **PRP**'s major federal programs for the fiscal year ended June 30, 2014. **PRP**'s major federal programs are identified in the Summary of Auditors' 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 **PRP**'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 **PRP**'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 **PRP**'s compliance.

### **Basis for Qualified Opinion FBI – Criminal Investigation Task Force**

As described in the accompanying Schedule of Findings and Questioned Costs, **PRP** did not comply with requirements regarding CFDA No. 16.XX1 FBI – Criminal Investigation Task Force, as described in Finding Number 2014-002 for Cash Management. Compliance with such requirement is necessary, in our opinion, for **PRP** to comply with the requirements applicable to that program.

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

**Mr. José L. Caldero López, Superintendent  
Puerto Rico Police of the Commonwealth of Puerto Rico  
Page 2**

***Qualified Opinion FBI – Criminal Investigation Task Force***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, **PRP** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on FBI – Criminal Investigation Task Force for the fiscal year ended June 30, 2014.

***Unmodified Opinion on the Other Major Federal Programs***

In our opinion, **PRP** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal programs identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 2014.

***Other Matters***

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

**Report on Internal Control Over Compliance**

Management of **PRP** 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 **PRP'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 **PRP's** internal control over compliance.

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 deficiency in internal control over compliance that we consider to be material weakness.

*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 deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2014-002 to be material weakness.

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

**Mr. José L. Caldero López, Superintendent  
Puerto Rico Police of the Commonwealth of Puerto Rico**  
Page 3

PRP's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. PRP'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  
January 7, 2015

Stamp No. E135440 was affixed to  
the original report.



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**PART III**  
**FINDINGS AND QUESTIONED COSTS**

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SECTION I – SUMMARY OF AUDITORS’ RESULTS

**Financial Statements**

Type of auditors’ 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
  - Public Safety Partnership and Community Policing Grants
  - Drug Enforcement Agency – Task Force
  - State and Community Highway Safety
  - National Explosive Detection Canine Team Program
  - Immigration and Custom Enforcement Task Force
- Qualified Opinion
  - FBI – Criminal Investigation Task Force
- 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
16.710	Public Safety Partnership and Community Policing Grants
16.XX1	FBI – Criminal Investigation Task Force
16.XX3	Drug Enforcement Agency – Task Force
20.600	State and Community Highway Safety
97.072	National Explosive Detection Canine Team Program
97.XX1	Immigration and Custom Enforcement Task Force

Dollar threshold used to distinguish between Type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee?  Yes  No

SECTION II – FINANCIAL STATEMENT FINDINGS

<b>FINDING REFERENCE NUMBER</b>	2014-001 (See FINDING REFERENCE NUMBER 2014-002)
<b>TYPE OF FINDING</b>	<b>MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS</b>
<b>CRITERIA</b>	U.S. Department of Justice Regulations at 28 CFR 66.21 – Payment. (b) Basic standard requires methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR Part 205. Also, Section 66.20 establishes 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.
<b>CONDITION</b>	During our internal control and compliance tests, we noted on ten (10) cash requests of a total of twenty-five (25), differences within the amount requested and the amount of the supporting documents for the requests. Cash requests for the FBI – Criminal Investigation Task Force are based on overtime premium paid to Agents assign to the Task Force. On the ten (10) request, the amount requested in exceeded the supporting documentation total by a combined total of \$1,966. The total amount requested in excess of immediate needs to the Federal government for the year amounted to \$36,812. On December 2, 2014, the <b>Puerto Rico Police (PRP)</b> reimbursed the FBI a total of \$32,231.78 of the excess funds requested.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<b>FINDING REFERENCE NUMBER</b>	2014-002 (See FINDING REFERENCE NUMBER 2014-001)
<b>FEDERAL PROGRAM</b>	FBI – CRIMINAL INVESTIGATION TASK FORCE (CFDA NO. 16.XX1) U.S. DEPARTMENT OF JUSTICE
<b>AWARD NUMBER</b>	FBI-2013-2014
<b>COMPLIANCE REQUIREMENT</b>	CASH MANAGEMENT
<b>TYPE OF FINDING</b>	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
<b>CRITERIA</b>	U.S. Department of Justice Regulations at 28 CFR 66.21 – Payment. (b) Basic standard requires methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR Part 205. Also, Section 66.20 establishes 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.
<b>CONDITION</b>	During our internal control and compliance tests, we noted on ten (10) cash requests of a total of twenty-five (25), differences within the amount requested and the amount of the supporting documents for the requests. Cash requests for the FBI – Criminal Investigation Task Force are based on overtime premium paid to Agents assign to the Task Force. On the ten (10) request, the amount requested in exceeded the supporting documentation total by a combined total of \$1,966. The total amount requested in excess of immediate needs to the Federal government for the year amounted to \$36,812. On December 2, 2014, the <b>Puerto Rico Police (PRP)</b> reimbursed the FBI a total of \$32,231.78 of the excess funds requested.
<b>QUESTIONED COSTS</b>	Indeterminable
<b>INFORMATION TO PROVIDE PROPER PERSPECTIVE</b>	This condition present a systemic problem within the <b>PRP</b> . Last year audit include a similar condition. A total of 10 requests out of 25 evaluated were noted with this condition.
<b>CAUSE</b>	The FBI Coordinator did not maintain adequate internal control of the cash requests as the amount of the requests were not supported by adequate source documentation. He prepares the cash request with preliminary information of the overtime incurred by the agents. He submits the overtime detail to the Overtime Division of the <b>PRP</b> were the information is review and validated on an lesser amount than the preliminary amount use by the FBI Coordinator in the fund requests.
<b>EFFECT OR POTENTIAL EFFECT</b>	<b>PRP</b> maintain cash on hand in excess of its' immediate need during the fiscal year because of the difference within the amount requested and the amount needed base on the supporting documents for the requests. If unnoticed the <b>PRP</b> can keep Federal cash in violation of the program and MOU agreement with the FBI.
<b>RECOMMENDATION</b>	<b>PRP's</b> FBI Task Force Coordinator must follow the internal control procedures establish that required adequate supporting documentation for each cash request. Instead of using preliminary information for the cash request, the Coordinator must obtain the final and authorized amount from the Overtime Office in order to prepare an accurate cash request to the Federal government.

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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**FINDING REFERENCE NUMBER**      2014-002 (See FINDING REFERENCE NUMBER 2014-001) – continuation

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

We are improving our internal controls in order to adequately include on the cash request only the actual amount needed to pay the overtime for agents assigned to the FBI Task Force. Instructions have been provided to the FBI Task Force Coordinator to include on the cash requests only the amount confirmed by the Overtime Division per source documentation available.

**IMPLEMENTATION DATE**                      January 2015

**RESPONSIBLE PERSON**                      FBI Task Force Coordinator

**END OF SCHEDULE**

(1) Audit Findings that have been Fully Corrected:

FISCAL YEAR 2011-2012

**Finding Number** 2012-02 **Special Tests and Provisions**  
 PRIFAS accounting system deficiencies; filling procedures, communication and coordination; recording of federal expenditures; and internal controls and procedures

**CFDA Numbers** ALL

**Questioned Cost** None

**Auditee Comments** On letter dated December 3, 2014, the U.S. Department of Justice recommended the closure of this finding.

**Finding Number** 2012-04 **Allowable Costs/Cost Principles**  
 Attendance report not available for examination. Attendance report was not signed by personnel and/or by supervisor. Funds requested in excess of actual overtime cost as supported by the attendance sheets. Location indicated in the attendance report does not match the location indicated in the request of funds submitted by the PRP. Receiving report does not indicate quantity of units received. Shipping documents were used to indicate units received.

**CFDA Numbers** 14.850  
 16.XXX  
 16.588  
 16.738/16.803  
 84.397  
 97.072

**Questioned Cost** \$53,313

**Auditee Comments** On letter dated December 3, 2014, the U.S. Department of Justice recommended the closure of this finding.

(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2012-2013

**Finding Number** 2013-006 **ALLOWABLE COST/COST PRINCIPLE AND CASH MANAGEMENT**  
 Differences within the amount requested and the amount of the supporting documents.

**CFDA Numbers** 16.XX1 FBI – CRIMINAL INVESTIGATION TASK FORCE

**Questioned Cost** None

**Auditee Comments** Corrective actions have been implement in accordance with the Corrective Action Plan prepared and submitted with the 2013 single audit. An initial determination has not been received from the awarding Federal agency. However, the finding was repeated during fiscal year 2013-2014; accordingly the corrective actions are still pending of implementation from the FBI Task Force Coordinator.

(2) Audit Findings not Corrected or Partially Corrected: – continuation

<b>Finding Number</b>	<b>2013-007</b>	<b>ALLOWABLE COST/COST PRINCIPLE AND CASH MANAGEMENT</b> Duplicate cash request related to the FBI Task Force grant.
<b>CFDA Numbers</b>	16.XX1	FBI – CRIMINAL INVESTIGATION TASK FORCE
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		Corrective actions have been implement in accordance with the Corrective Action Plan prepared and submitted with the 2013 single audit. An initial determination has not been received from the awarding Federal agencies.
<b>Finding Number</b>	<b>2013-008</b>	<b>CASH MANAGEMENT</b> Cash on hand balance created by adjustment that was not adjusted to future cash request or reimbursed to the Federal grantor.
<b>CFDA Numbers</b>	16.710	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		Corrective actions have been implement in accordance with the Corrective Action Plan prepared and submitted with the 2013 single audit. An initial determination has not been received from the awarding Federal agencies.
<b>Finding Number</b>	<b>2013-009</b>	<b>REPORTING</b> Significant adjustments were needed to present the correct balance of two Federal programs on the SEFA.
<b>CFDA Numbers</b>	16.XX1 97.XX1	FBI – CRIMINAL INVESTIGATION TASK FORCE IMMIGRATION AND CUSTOMS ENFORCEMENT TASK FORCE
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		Corrective actions have been implement in accordance with the Corrective Action Plan prepared and submitted with the 2013 single audit. An initial determination has not been received from the awarding Federal agencies.
<b>Finding Number</b>	<b>2013-010</b>	<b>REPORTING</b> Delays in the preparation of reimbursements and cash requests to the Federal grantor.
<b>CFDA Numbers</b>	16.710	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		Corrective actions have been implement in accordance with the Corrective Action Plan prepared and submitted with the 2013 single audit. An initial determination has not been received from the awarding Federal agencies.

(2) Audit Findings not Corrected or Partially Corrected: – continuation

**Finding Number**      2013-011      **REPORTING**  
 The PRIFAS System does not reflect the correct balance of the COPS program activities and expenditures, and not reconcile with Report SF-425.

**CFDA Numbers**      16.710

**Questioned Cost**      None

**Auditee Comments**      Corrective actions have been implement in accordance with the Corrective Action Plan prepared and submitted with the 2013 single audit. An initial determination has not been received from the awarding Federal agencies.

**FISCAL YEAR 2011-2012**

**Finding Number**      2012-03      **Allowable Costs/Cost Principles**  
 Lack of evidence of documentation required by state and federal laws and regulations. Also, lack of evidence of the request and authorization for employee in the Direct Deposit System. The account indicated in the Direct Deposit payment authorization did not match with the account deposit payment.

**CFDA Numbers**      ALL

**Questioned Cost**      None

**Auditee Comments**      On letter dated December 3, 2014, the U.S. Department of Justice requested additional information related to their evaluation of this finding and the completion of an online grant management training to close the finding.

**Finding Number**      2012-05      **Cash Management**  
 Unavailable requisitions for examination.

**CFDA Numbers**      16.XXX

**Questioned Cost**      None

**Auditee Comments**      On letter dated December 3, 2014, the U.S. Department of Justice requested additional information related to their evaluation of this finding and the completion of an online grant management training to close the finding.

**Finding Number**      2012-06      **Cash Management**  
 Funds requested under the advance method instead of reimbursement method.

**CFDA Numbers**      16.588

**Questioned Cost**      None

**Auditee Comments**      On letter dated December 3, 2014, the U.S. Department of Justice requested additional information related to their evaluation of this finding and the completion of an online grant management training to close the finding.

(2) Audit Findings not Corrected or Partially Corrected: – continuation

<b>Finding Number</b>	<b>2012-07</b>	<b>Property and Equipment</b> The property serial number was not included in the property records. The property records did not include the acquisition date of the equipment. The property records did not include information about the title holder or keeper of the equipment. The property was not properly maintained. The property was not identified with the property number assigned and was not properly safeguarded.
<b>CFDA Numbers</b>	16.738/16.803	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		On letter dated December 3, 2014, the U.S. Department of Justice requested additional information related to their evaluation of this finding and the completion of an online grant management training to close the finding.
<b>Finding Number</b>	<b>2012-08</b>	<b>Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, Level of Effort, Earmarking</b> Some agents classified under the COPS program were agents that were hired before the date of hire of the initial agents recruited under the program.
<b>CFDA Numbers</b>	16.710	
<b>Questioned Cost</b>	\$36,340	Already reimbursed.
<b>Auditee Comments</b>		On letter dated December 3, 2014, the U.S. Department of Justice requested additional information related to their evaluation of this finding and the completion of an online grant management training to close the finding.
<b>Finding Number</b>	<b>2012-09</b>	<b>Reporting</b> Reports submitted after is due date (late). Discrepancies in date reported. Statistical data used to prepare the reports did not agree with the reports. Reports did not agree with the accounting records. Unable to examine documents requested for review.
<b>CFDA Numbers</b>	16.588 16.710 97.072	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		On letter dated December 3, 2014, the U.S. Department of Justice requested additional information related to their evaluation of this finding and the completion of an online grant management training to close the finding.
<b>Finding Number</b>	<b>2012-10</b>	<b>Special Tests and Provisions</b> Canine trainings are not being provided on a weekly basis as required.
<b>CFDA Numbers</b>	97.072	
<b>Questioned Cost</b>	None	

(2) Audit Findings not Corrected or Partially Corrected: – continuation

**Auditee Comments** On letter dated December 3, 2014, the U.S. Department of Justice requested additional information related to their evaluation of this finding and the completion of an online grant management training to close the finding.

**FISCAL YEAR 2010-2011**

**Finding Number** 2011-01 **Activities Allowed or Unallowed, and Procurement and Suspension and Debarment**  
 Internal control deficiencies related to state funds payments.

**CFDA Numbers** ALL

**Questioned Cost** None

**Auditee Comments** On July 29, 2013 PRP received the Initial Determination of the finding included on the Single Audit report for the fiscal year ended June 30, 2011. The determination requested an update to the original Corrective Action Plan of the audit and certain evidence related to the updated procedures that were implemented. Additional information was requested by the US Department of Justice on August 25, 2014 for final resolution. The information was provide on September 23, 2014 as requested, however, a final determination on the finding has not been received.

**Finding Number** 2011-02 **Special Tests and Provisions**  
 PRIFAS accounting system deficiencies; filling procedures, communication and coordination; recording of federal expenditures; and internal controls and procedures

**CFDA Numbers** ALL

**Questioned Cost** None

**Auditee Comments** On July 29, 2013 PRP received the Initial Determination of the finding included on the Single Audit report for the fiscal year ended June 30, 2011. The determination requested an update to the original Corrective Action Plan of the audit and certain evidence related to the updated procedures that were implemented. Additional information was requested by the US Department of Justice on August 25, 2014 for final resolution. The information was provide on September 23, 2014 as requested, however, a final determination on the finding has not been received.

**Finding Number** 2011-03 **Allowable Costs/Cost Principles**  
 Lack of evidence of the request and authorization for employee in the Direct Deposit System. The account indicated in the Direct Deposit payment authorization did not match with the account deposit payment.

**CFDA Numbers** ALL

**Questioned Cost** None

(2) Audit Findings not Corrected or Partially Corrected: – continuation

**Auditee Comments** On July 29, 2013 PRP received the Initial Determination of the finding included on the Single Audit report for the fiscal year ended June 30, 2011. The determination requested an update to the original Corrective Action Plan of the audit and certain evidence related to the updated procedures that were implemented. Additional information was requested by the US Department of Justice on August 25, 2014 for final resolution. The information was provide on September 23, 2014 as requested, however, a final determination on the finding has not been received.

**Finding Number** 2011-04 **Allowable Costs/Cost Principles**  
 Attendance report not available for examination. Attendance report was not signed by personnel and/or by supervisor. Funds requested in excess of actual overtime cost as supported by the attendance sheets. Location indicated in the attendance report does not match the location indicated in the request of funds submitted by the PRP. Receiving report does not indicate quantity of units received. Shipping documents were used to indicate units received. Included with the update CAP, the PRP reimbursed the US Department of Justice \$12,836 related to the questioned cost of this finding. Also, a reimbursement of \$22,503 was made to PR Department of Justice for questioned cost under this was made on November 2013.

**CFDA Numbers** 14.872  
 16.XXX  
 16.588  
 16.738/16.803  
 20.600  
 97.116

**Questioned Cost** \$53,707 The amount of \$18,368 is pending of final determination.

**Auditee Comments** On July 29, 2013 PRP received the Initial Determination of the finding included on the Single Audit report for the fiscal year ended June 30, 2011. The determination requested an update to the original Corrective Action Plan of the audit and certain evidence related to the updated procedures that were implemented. Additional information was requested by the US Department of Justice on August 25, 2014 for final resolution. The information was provide on September 23, 2014 as requested, however, a final determination on the finding has not been received.

**Finding Number** 2011-05 **Cash Management**  
 The days elapsed from the transfer date through the disbursement date.

**CFDA Numbers** 16.588

**Questioned Cost** None

**Auditee Comments** On July 29, 2013 PRP received the Initial Determination of the finding included on the Single Audit report for the fiscal year ended June 30, 2011. The determination requested an update to the original Corrective Action Plan of the audit and certain evidence related to the updated procedures that were implemented. Additional information was requested by the US Department of Justice on August 25, 2014 for final resolution. The information was provide on September 23, 2014 as requested, however, a final determination on the finding has not been received.

(2) Audit Findings not Corrected or Partially Corrected: – continuation

<b>Finding Number</b>	<b>2011-06</b>	<b>Cash Management</b> The days elapsed from the transfer date through the disbursement date.
<b>CFDA Numbers</b>	97.115	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>	On July 29, 2013 PRP received the Initial Determination of the finding included on the Single Audit report for the fiscal year ended June 30, 2011. The determination requested an update to the original Corrective Action Plan of the audit and certain evidence related to the updated procedures that were implemented. Additional information was requested by the US Department of Justice on August 25, 2014 for final resolution. The information was provide on September 23, 2014 as requested, however, a final determination on the finding has not been received.	
<b>Finding Number</b>	<b>2011-07</b>	<b>Property and Equipment</b> The property serial number was not included in the property records. The property records did not include the acquisition date of the equipment. The property records did not include information about the title holder or keeper of the equipment. The property was not property maintained. The property was not identified with the property number assigned and was not property safeguarded.
<b>CFDA Numbers</b>	16.588 16.738/16.803 20.600 97.116	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>	On July 29, 2013 PRP received the Initial Determination of the finding included on the Single Audit report for the fiscal year ended June 30, 2011. The determination requested an update to the original Corrective Action Plan of the audit and certain evidence related to the updated procedures that were implemented. Additional information was requested by the US Department of Justice on August 25, 2014 for final resolution. The information was provide on September 23, 2014 as requested, however, a final determination on the finding has not been received.	
<b>Finding Number</b>	<b>2011-08</b>	<b>Period of Availability of Federal Funds</b> The obligations were incurred within the period of availability, the payment were made after the required allowed period.
<b>CFDA Numbers</b>	16.738	
<b>Questioned Cost</b>	\$39,591	
<b>Auditee Comments</b>	On July 29, 2013 PRP received the Initial Determination of the finding included on the Single Audit report for the fiscal year ended June 30, 2011. The determination requested an update to the original Corrective Action Plan of the audit and certain evidence related to the updated procedures that were implemented. Additional information was requested by the US Department of Justice on August 25, 2014 for final resolution. The information was provide on September 23, 2014 as requested, however, a final determination on the finding has not been received.	

(2) **Audit Findings not Corrected or Partially Corrected:** – continuation

<b>Finding Number</b>	<b>2011-09</b>	<b>Reporting</b> Reports submitted after is due date (late). Discrepancies in date reported. Unable to examine documents requested for review.
<b>CFDA Numbers</b>	16.588 16.738/16.803 20.600 97.116	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>	On July 29, 2013 PRP received the Initial Determination of the finding included on the Single Audit report for the fiscal year ended June 30, 2011. The determination requested an update to the original Corrective Action Plan of the audit and certain evidence related to the updated procedures that were implemented. Additional information was requested by the US Department of Justice on August 25, 2014 for final resolution. The information was provide on September 23, 2014 as requested, however, a final determination on the finding has not been received.	
<b>Finding Number</b>	<b>2011-10</b>	<b>Allowable Costs/Cost Principles</b> Expenditures of sick leave liquidation based on estimated amount rather than actual costs.
<b>CFDA Numbers</b>	84.397	
<b>Questioned Cost</b>	\$191,625	
<b>Auditee Comments</b>	On July 29, 2013 PRP received the Initial Determination of the finding included on the Single Audit report for the fiscal year ended June 30, 2011. The determination requested an update to the original Corrective Action Plan of the audit and certain evidence related to the updated procedures that were implemented. Additional information was requested by the US Department of Justice on August 25, 2014 for final resolution. The information was provide on September 23, 2014 as requested, however, a final determination on the finding has not been received.	

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

NONE

(4) **Audit findings is no longer valid:**

NONE

END OF SCHEDULE