

**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES**

**SINGLE AUDIT REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2010**

**ORTIZ, RIVERA, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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INSTITUTE OF FORENSIC SCIENCES  
SINGLE AUDIT REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Institute of Forensic Sciences  
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Institute of Forensic Sciences, as of and for the year ended June 30, 2010, which collectively comprise the Institute's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Institute's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Institute of Forensic Sciences as of June 30, 2010, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2010 on our consideration of the Institute's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to

describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtain during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Institute of Forensic Sciences' financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. 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 statements. 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 statements or to the financial statements 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 statements as a whole.

*Ortiz, Rivero Rivera '16*

San Juan, Puerto Rico  
November 12, 2010

The stamp 2571462 was affixed  
to the original of this report.



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The financial statements of the Institute of Forensic Sciences includes all financial activities and include notes to the financial statements that explain and provide detail data on information in the financial statements.

The following is management's discussion and analysis of the Institute of Forensic Science's financial performance for the year ended June 30, 2010. It should be read in conjunction with the accompanying financial statements.

### Financial Highlights

- The Institute's liabilities increase \$338,450 during 2010. The Institute's net asset decrease \$1,395,409 during 2010.
- The total revenues of the Institute increase \$525,462 during 2010. This increase is primarily due to the increase in General funds.
- The operation's expenses in 2010 decreased by \$653,749 from 2009.

The Institute of Forensic Science's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements are prepared on the accrual basis, recognizing revenue when earned and expenses when a liability is incurred, and include all of the financial activities of the Institute of Forensic Sciences. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. See notes to financial statements for a summary of significant accounting policies.

### Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Institute's basic financial statements. The Institute's basic financial statements consist of the Statement of Net Assets, Statements of Activities, Balance Sheet-Governmental Funds, Balance Sheet to Statement of Net Assets, Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds, Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement Activities, Statement of Revenues and Expenditures-General Fund. The first statements report the Institute's net assets and how they have changed. Net assets are the difference between the Institute's total assets and liabilities.

The following table summarizes the net assets of the Institute at June 30, 2010:

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 2,049,460
Other receivables	85,618
Capital assets, net	26,284,852
Total assets	<u>\$ 28,419,930</u>
<b><u>Liabilities and Net Assets</u></b>	
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 1,538,793
Due to other agencies	368,669
Non-current liabilities:	
Accrued compensated absences – due within one year	363,436
Accrued compensated absences – due in more than one year	<u>5,085,930</u>
Total liabilities	<u>7,356,828</u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	26,284,852
Restricted for:	
Capital Projects	518,593
Unrestricted	<u>(5,740,343)</u>
Total net assets	<u>\$ 21,063,102</u>

## REVENUES

Operating and non-operating revenues for the Institute of Forensic Sciences totaled \$19,931,403 for the year ended June 30, 2010. Of this total, general fund totaled \$18,712,350 or 94.00 percent of total revenues. Other governmental funds totaled \$1,219,053 or 6.00 percent of total revenues.

A summary of revenues is provided in the following tabulation:

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Legislative appropriations	\$18,151,961	\$ -	\$18,151,961
Federal financial assistance		1,219,053	1,219,053
Charges for service	550,853		550,853
Interest	9,536		9,536
Total Revenues	<u>\$18,712,350</u>	<u>\$1,219,053</u>	<u>\$19,931,403</u>

## EXPENSES

Operating and non-operating expenses totaled \$20,884,485 for the year ended June 30, 2010. Of this amount, salaries and payroll taxes totaled \$12,325,259, fringe benefits totaled \$1,485,199, equipment and materials totaled \$3,230,389, utilities totaled \$1,437,315, professional services totaled \$621,873, repairs and maintenance totaled \$491,485, representation and travel totaled \$73,750, rent totaled \$52,462, transportation \$60,162, insurance totaled \$240,580, printing totaled \$47,507 and others totaled \$816,504.

Summary data is presented in the following tabulation:

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>EXPENDITURES</b>			
Salaries and payroll taxes	\$12,086,171	\$ 239,088	\$12,325,259
Fringe benefits	1,479,215	7,984	1,487,199
Equipment and materials	1,746,990	1,483,399	3,230,389
Utilities	1,437,315		1,437,315
Professional services	596,129	25,744	621,873
Repairs and maintenance	468,408	23,077	491,485
Representation and travel	62,994	10,756	73,750
Rent	52,462		52,462
Transportation	60,162		60,162
Insurance	240,580		240,580
Printing	47,507		47,507
Others	767,799	48,705	816,504
Total Expenditures	<u>\$19,045,732</u>	<u>\$1,838,753</u>	<u>\$20,884,485</u>

### Financial Analysis of Institute of Forensic Sciences

The financial statements are prepared on the accrual basis, recognizing revenue when earned and expenses when incurred, and include all of the financial activities of the Institute of Forensic Sciences. Assets are designated as restricted in accordance with debt and other agreements.

Institute's operations ended the year with a total of net assets of \$21,063,102. Net asset decrease \$1,395,409 during 2010.

### Budget Variances in the General Fund

The following tabulation compared the differences between the original budgets for the general fund, the final amended budget actual amounts for the year ended June 30, 2010.

	<b>Budgeted Amounts</b>		
	<b>Original</b>	<b>Final</b>	<b>Actual</b>
<b>REVENUES</b>			
Legislative appropriations	\$17,944,000	\$17,944,000	\$18,147,121
Interest	-	-	9,536
Total revenues	<u>\$17,944,000</u>	<u>\$17,944,000</u>	<u>\$18,156,657</u>
<b>EXPENDITURES</b>			
Salaries and payroll taxes	14,203,000	14,203,000	11,907,477
Fringe Benefits	1,073,000	1,073,000	1,479,771
Equipment and materials			890,857
Utilities	848,000	848,000	1,437,315
Professional services	323,000	323,000	595,169
Repairs and maintenance	67,000	67,000	461,618
Representation and travel	23,000	23,000	62,784
Rent	36,000	36,000	52,462
Transportation	30,000	30,000	59,404
Insurance	159,000	159,000	239,980
Printing	2,000	2,000	18,649
Others	<u>1,180,000</u>	<u>1,180,000</u>	<u>562,818</u>
Total expenditures	<u>\$17,944,000</u>	<u>\$17,944,000</u>	<u>\$17,768,304</u>
Difference between original budget amounts and actual			<u>\$388,353</u>

### Capital Assets

Operating Fund assets with a cost of \$100 or more are capitalized and depreciated over their useful lives using the straight-line method. As of June 30, 2010, capital assets and accumulated depreciation totaled \$39,643,359 and \$13,358,507 respectively.

Summary data is presented in the following tabulation:

	<b>Balance June 30, 2009</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance June 30, 2010</b>
Capital assets:				
Building and building improvements	\$28,868,657	\$ -	\$ -	\$28,868,657
Equipment, furniture and fixtures	9,264,473	779,721	23,375	10,020,819
Vehicles	<u>796,166</u>	<u>4,000</u>	<u>46,283</u>	<u>753,883</u>
Total capital assets	38,929,296	783,721	69,658	39,643,359
Less accumulated depreciation for:				
Building and building improvements	5,052,534	314,386		5,366,920
Furniture and fixtures	6,443,226	861,426	19,988	7,284,664
Vehicles and equipment	<u>706,357</u>	<u>47,389</u>	<u>46,823</u>	<u>706,923</u>
Total accumulated depreciation	12,202,117	1,223,201	66,811	13,358,507
 Total capital assets, net	 <u>\$26,727,179</u>	 <u>\$(439,480)</u>	 <u>\$2,847</u>	 <u>\$26,284,852</u>

#### Request for Information

This financial report is designed to provide interested parties with a general overview of the Institute of Forensic Science's finances. Should you have any questions about this report or need additional information, please contact the Director of Budget and Finance Division, Call Box 11878 Caparra Heights Station, San Juan, PR 00922.

**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
STATEMENT OF NET ASSETS  
JUNE 30, 2010**

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalents (Note 4)	\$ 2,049,460
Other receivables	85,618
Capital assets, net (Note 6)	26,284,852
Total assets	\$ 28,419,930
<u>Liabilities and Net Assets</u>	
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 1,538,793
Due to other agencies (Note 7)	368,669
Noncurrent liabilities:	
Accrued compensated absences - due within one year	363,436
Accrued compensated absences and claims and judgments - due in more than one year	5,085,930
Total liabilities	7,356,828
Commitments (Note 10)	
<b>Net Assets</b>	
Investment in capital assets, net of related debt	26,284,852
Restricted for:	
Capital projects	518,593
Unrestricted	(5,740,343)
Total net assets	\$ 21,063,102

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and and Change in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
<b>Governmental Activities:</b>				
Criminal investigation	<u>\$ 21,323,965</u>	<u>\$ 550,853</u>	<u>\$ 19,371,014</u>	<u>\$ (1,402,098)</u>
General revenues:				
Interest income				9,536
Total general revenues				<u>9,536</u>
Change in net assets				(1,392,562)
Loss on disposition of assets				(2,847)
Net assets at beginning of year				<u>22,458,511</u>
Net assets at end of year				<u>\$ 21,063,102</u>

The accompanying notes are an integral part of these basic financial statements.

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COMMONWEALTH OF PUERTO RICO  
 INSTITUTE OF FORENSIC SCIENCES  
 BALANCE SHEET-GOVERNMENTAL FUNDS  
 JUNE 30, 2010

<u>Assets</u>	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Note 4)	\$ 1,512,663	\$ 154,754	\$ 382,043	\$ 2,049,460
Other receivables	85,618	-	-	85,618
Due from other funds (Note 5)	207,775	363,839	267,478	839,092
Total assets	<u>\$ 1,806,056</u>	<u>\$ 518,593</u>	<u>\$ 649,521</u>	<u>\$ 2,974,170</u>

The accompanying notes are an integral part of these basic financial statements.

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COMMONWEALTH OF PUERTO RICO  
 INSTITUTE OF FORENSIC SCIENCES  
 BALANCE SHEET-GOVERNMENTAL FUNDS  
 JUNE 30, 2010

<u>Liabilities and Fund Balance (Deficit)</u>	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 1,028,163	\$ -	\$ 510,630	\$ 1,538,793
Due to other agencies (Note 7)	368,669	-	-	368,669
Due to other funds (Note 5)	631,317	-	207,775	839,092
Accrued compensated absences	363,436	-	-	363,436
Total liabilities	<u>2,391,585</u>	<u>-</u>	<u>718,405</u>	<u>3,109,990</u>
Commitments (Note 10)				
<b>Fund Balance (Deficit)</b>				
Reserved for:				
Encumbrances	803,873	-	-	803,873
Capital projects	-	518,593	-	518,593
Unreserved	(1,389,402)	-	(68,884)	(1,458,286)
Total fund balance (deficit)	<u>(585,529)</u>	<u>518,593</u>	<u>(68,884)</u>	<u>(135,820)</u>
Total liabilities and fund balance (deficit)	<u>\$ 1,806,056</u>	<u>\$ 518,593</u>	<u>\$ 649,521</u>	<u>\$ 2,974,170</u>

The accompanying notes are an integral part of these basic financial statements.

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**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
RECONCILIATION OF THE GOVERNMENTAL FUND  
BALANCE (DEFICIT) TO STATEMENT OF NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Total deficit - governmental funds \$ (135,820)

Amounts reported for governmental activities in the statement of net assets are different because:

- Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet 26,284,852
  
- Accrued compensated absences, claims and judgments and accounts payable, are not due and payable in the current period and therefore are not reported in the funds. (5,085,930)

Net assets of governmental activities \$ 21,063,102

The accompanying notes are an integral part of these basic financial statements.

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**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (DEFICIT) - GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Legislative appropriations	\$ 18,151,961	\$ -	\$ -	\$ 18,151,961
Federal financial assistance	-	-	1,219,053	1,219,053
Charges for service	550,853	-	-	550,853
Interest	9,536	-	-	9,536
Total revenues	<u>18,712,350</u>	<u>-</u>	<u>1,219,053</u>	<u>19,931,403</u>
<b>EXPENDITURES</b>				
Salaries and payroll taxes	12,086,171	-	239,088	12,325,259
Fringe benefits	1,479,215	-	7,984	1,487,199
Equipment and materials	1,746,990	-	1,483,399	3,230,389
Utilities	1,437,315	-	-	1,437,315
Professional services	596,129	-	25,744	621,873
Repairs and maintenance	468,408	-	23,077	491,485
Representation and travel	62,994	-	10,756	73,750
Rent	52,462	-	-	52,462
Transportation	60,162	-	-	60,162
Insurance	240,580	-	-	240,580
Printing	47,507	-	-	47,507
Others	767,799	-	48,705	816,504
Total expenditures	<u>19,045,732</u>	<u>-</u>	<u>1,838,753</u>	<u>20,884,485</u>
Excess (deficiency) of revenues over (under) expenditures	(333,382)	-	(619,700)	(953,082)
<b>FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR</b>	<u>(252,147)</u>	<u>518,593</u>	<u>550,816</u>	<u>817,262</u>
<b>FUND BALANCE (DEFICIT) AT END OF YEAR</b>	<u>\$ (585,529)</u>	<u>\$ 518,593</u>	<u>\$ (68,884)</u>	<u>\$ (135,820)</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Net change in fund balances - total governmental funds \$ (953,082)

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 783,721
- Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental (1,223,201)
- Loss on disposition of assets is reported in the statement of activities, but do not require the use of current financial resources. (2,847)

Changes in net assets of governmental activities \$ (1,395,409)

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	General Fund			Variance with Final Budget- Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<b>REVENUES</b>				
Legislative appropriations	\$ 17,944,000	\$ 17,944,000	\$ 18,147,121	\$ 203,121
Interest			9,536	9,536
Total revenues	<u>17,944,000</u>	<u>17,944,000</u>	<u>18,156,657</u>	<u>212,657</u>
<b>EXPENDITURES</b>				
Salaries and payroll taxes	14,203,000	14,203,000	11,907,477	2,295,523
Fringe benefits	1,073,000	1,073,000	1,479,771	(406,771)
Equipment and materials	-	-	890,857	(890,857)
Utilities	848,000	848,000	1,437,315	(589,315)
Professional services	323,000	323,000	595,169	(272,169)
Repairs and maintenance	67,000	67,000	461,618	(394,618)
Representation and travel	23,000	23,000	62,784	(39,784)
Rent	36,000	36,000	52,462	(16,462)
Transportation	30,000	30,000	59,404	(29,404)
Insurance	159,000	159,000	239,980	(80,980)
Printing	2,000	2,000	18,649	(16,649)
Others	1,180,000	1,180,000	562,818	617,182
Total expenditures	<u>17,944,000</u>	<u>17,944,000</u>	<u>17,768,304</u>	<u>175,696</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 388,353</u>	<u>\$ 388,353</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**1. ORGANIZATION**

The Institute of Forensic Sciences (the Institute) was created by Act 13 of July 24, 1985, as amended, for the purpose of guarantee objectivity in the criminal justice system through participation and scientific investigation as key role in clarifying beyond any reasonable doubt, the causes, means, and circumstances of deaths and crimes by forensic sciences.

The Institute is governed by an eight-member board comprised by the Secretary of Justice, who is the Chairman, the Police Superintendent, the Counselor of Medical Science campus of the University of Puerto Rico, the Secretary of Health, the Administrative Director of the Office for Courts Administration and three other members appointed by the Governor with the consent of the Senate.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the Institute have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

GASB 34, as amended by GASB 37, establishes new requirements and a new reporting model for the financial statements of state and local governments. GASB 34 was developed to make the financial statements easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

- Management's Discussion and Analysis - GASB 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of management's discussion and analysis (MD&A).
- Government - Wide Financial Statements - The new reporting model includes financial statements prepared using full accrual of accounting for all of the government's activities. This approach includes not just current assets and

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liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).

- **Statement of Net Assets** - The statement of net assets is designed to display the financial position of the Institute, including capital assets and infrastructure. The net assets of the Institute will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.
- **Statement of Program Activities** - The new government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- **Budgetary comparison schedules** - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the new reporting model, the Institute will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

GASB 33, as amended by GASB 36, establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

GASB 38 establishes and modifies disclosure requirements related to the summary of significant accounting policies, actions taken to address violations of significant finance - related legal and contractual provisions, debt and lease obligations, short-term debt, desegregation of receivable and payable balances, and interfund balances and transfers with GASB 34 is implemented.

The net assets of the Institute will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.

- **Statement of Program Activities** - The government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.

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- Budgetary comparison schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the new reporting model, the Institute will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

The following is a summary of the more significant policies.

- Reporting Entity

In evaluating how to define the Institute for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity," of the GASB, as amended by Statement No. 39, "Determining whether certain organizations are component units - an amendment of Statement No. 14". The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Institute's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Institute's balances and transactions. Based on the aforementioned criteria, the Institute has no component units.

GASB Statement No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially accountable should be reported as components units. A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the

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primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

**b. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the Institute. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported mainly by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus and the accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Institute reports the following major governmental funds:

1) General Fund

This is the operating fund of the Institute and accounts for all financial resources, except those required to be accounted for in another fund.

2) Capital Projects Fund

This fund is used to account for the financial resources used for the acquisition and construction of major capital facilities, financed with the proceeds of general obligation bonds.

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Private-section standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, licenses, permits, or privileges provide; 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, than unrestricted resources as they are needed.

**d. Cash and Cash Equivalents**

The Institute's Finance Director is responsible for investing available resources. The Institute is restricted by law to invest only in savings accounts with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB).

**e. Interfund Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds.

**f. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Institute, such as roads, bridges,

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streets sidewalks, and drainage system), are reported in the applicable governmental column in the government-wide financial statements.

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Buildings and building improvements	20-50 years
Furniture and fixtures	5-10 years
Vehicles and equipment	5-20 years

**g. Reservation of Fund Balance**

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriated for expenditure. The Institute has the following reservations of fund balance:

1) Encumbrances

Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.

2) Capital Projects Fund

Represents the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. The committed amounts generally will become liabilities in future periods as the projects are completed.

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**h. Compensated Absences**

The Institute employees are entitled to 2.5 days per month, up to maximum of 60 days, for vacation, and 1.5 days per month, up to a maximum of 90 days, for sick leave. Upon retirement, an employee receives compensation for all accumulated unpaid sick leave at the current rate, if the employee has at least ten years of services with the government.

The Public Service Personnel Law requires the executive agencies of the Commonwealth of annually pay the employees the accumulated vacation and such leave earned in excess of the limits mentioned above.

**i. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period.

**j. Future Adoption of Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) has issued the following statements that the Institute has not yet adopted:

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
54	Fund Balance Reporting and Governmental Fund Type Definitions	2010-11
57	OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans	2011-12
59	Financial Instruments Omnibus	2010-11

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The impact of these statements on the Institute's financial statements has not yet been determined.

**3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**a. Budgetary Control**

The Institute is required by state law to adopt an annual budget for the general fund. The budget is adopted in accordance with a statutory basis of accounting which is not in accordance with GAAP. As of September of the preceding year, the Institute prepares a budget for the next fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.

The proposed budget is submitted to the Office of Management and Budget (OMB). Once approved by OMB then it is submitted to the legislative bodies of the Commonwealth of Puerto Rico. Prior to July 1, the annual budget is legally enacted through passage of legislative appropriations.

**b. Budget/GAAP Reconciliation**

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of expenditures over revenues for the year ended June 30, 2010 is presented below for the general fund:

Excess of revenues over expenditures- budgetary basis	\$ 388,353
Entity differences:	
Non-budgeted funds, net	<u>(721,735)</u>
Excess of expenditures over revenues - GAAP basis	\$ <u>(333,382)</u>

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FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**c. Legal Compliance**

The legal level of budgetary control is at the individual expense object.

**4. DEPOSITS - CUSTODIAL CREDIT RISK**

**Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico.

The Institute maintains its deposits in one (1) bank located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

**5. INTERFUND TRANSACTIONS**

Interfund receivables and payables at June 30, 2010, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental Funds	\$ 207,775
Other Governmental Funds	General	267,478
Capital Project	General	<u>363,839</u>
		<u>\$ 839,092</u>

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FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**6. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2010 was as follows:

	<u>Balance</u> <u>June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2010</u>
Capital assets, being depreciated:				
Building and building improvements	\$ 28,868,657	\$ -	\$ -	\$ 28,868,657
Equipment, furniture, and fixtures	9,264,473	779,721	23,375	10,020,819
Vehicles	796,166	4,000	46,283	753,883
Total capital assets, being depreciated	<u>38,929,296</u>	<u>783,721</u>	<u>69,658</u>	<u>39,643,359</u>
Less accumulated depreciation for:				
Buildings and building improvements	5,052,534	314,386		5,366,920
Equipment, furnitures and fixtures	6,443,226	861,426	19,988	7,284,664
Vehicles	706,357	47,389	46,823	706,923
Total accumulated depreciation	<u>12,202,117</u>	<u>1,223,201</u>	<u>66,811</u>	<u>13,358,507</u>
Total capital assets, being depreciated, net	<u>26,727,179</u>	<u>(439,480)</u>	<u>2,847</u>	<u>26,284,852</u>
Governmental activities capital assets, net	<u>\$ 26,727,179</u>	<u>\$ (439,480)</u>	<u>\$ 2,847</u>	<u>\$ 26,284,852</u>

**COMMONWEALTH OF PUERTO RICO  
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FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**7. DUE TO OTHER AGENCIES**

Due to other agencies at June 30, 2010 are as follows:

	<b>General Fund</b>
Puerto Rico Retirement System	\$ 205,592
Puerto Rico Electric Power Authority	123,894
Puerto Rico General Services Administration	29,715
Puerto Rico Water and Sewer Authority	2,888
Puerto Rico Department of Labor	6,580
	<b>\$ 368,669</b>

**8. RETIREMENT PLAN**

**a. Plan Description**

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) are the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico.

The System was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirement's systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, and Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

The System provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-

**COMMONWEALTH OF PUERTO RICO  
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FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service of members who have attained an age of at least fifty-eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity will be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, and 2 percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

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

No benefit is payable if the participant receives a refund of his accumulated contributions.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created ERS, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Institute on or after January 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan.

ORTIZ, RIVERA,<sup>28</sup> RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will be either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

**a. Contribution Requirements**

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Institute's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2010 was approximately \$894,000. The Institute's payroll for employees covered by ERS was approximately \$9.6 million. The Institute total payroll for all employees was approximately \$10.4 million.

Additional information of ERS is presented in its financial statements for the year ended June 30, 2010, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

**9. CONTINGENCIES**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government through the Department of Justice of the Commonwealth of Puerto Rico. Any disallowed claims, including amounts already collected, may constitute a liability of the applicant funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Institute expects such amounts, if any, to be immaterial.

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The Institute is a defendant in various lawsuits which claims for actual damages. The accompanying statement of net assets reflects a liability of approximately \$1.6 million, included as noncurrent liabilities, for the probable amounts of loss associated with these claims.

**10. COMMITMENTS**

The Institute had commitments at June 30, 2010 of approximately \$518,000 for the construction and improvements of current facilities.

**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U.S. Department of Justice</b>			
Pass-through the Puerto Rico Department of Justice			
Byrne Formula Grant Program	16.579		\$ 584,782
Community Prosecution and Project Safe Neighborhoods	16.609		29,797
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2008-DJ-BX-0050	525,719
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		245,466
Subtotal U.S. Department of Justice			<u>1,385,764</u>
<b>U.S. Department of Health and Human Services</b>			
Pass-through the Puerto Rico Department of Justice			
National Bioterrorism Hospital Preparedness Program	93.889		452,989
Subtotal U.S. Department of Health and Human Services			<u>452,989</u>
<b>TOTAL</b>			<u>\$ 1,838,753</u>

See notes to schedule of expenditures of federal awards.

**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Institute of Forensic Sciences and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**2. BASIS OF PRESENTATION**

The expenditures of the schedule are included in the Institute's basic financial statements in the accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds within the other governmental funds.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Institute of Forensic Sciences  
San Juan, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Institute of Forensic Sciences, as of and for the year ended June 30, 2010, which collectively comprise the Institute's basic financial statements and have issued our report thereon dated November 12, 2010. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Institute of Forensic Sciences' internal control over financial reporting a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over financial reporting.

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, 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 reasonably possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

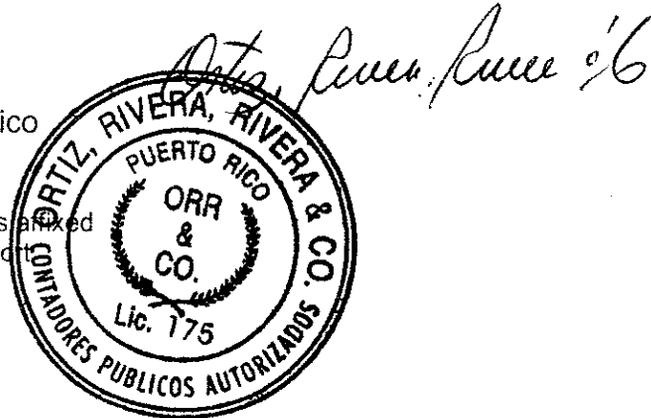
As part of obtaining reasonable assurance about whether the Institute of Forensic Sciences' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Institute of Forensic Sciences in a separate letter dated November 12, 2010.

This report is intended solely for the information and use of the Institute's management, others within the entity, and the 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.

San Juan, Puerto Rico  
November 12, 2010

The stamp 2571463 was affixed  
to the original of this report



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
Institute of Forensic Sciences  
San Juan, Puerto Rico

Compliance

We have audited Institute of Forensic Sciences' compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. Institute of Forensic Sciences' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Institute's management. Our responsibility is to express an opinion on Institute of Institute's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. 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 Institute of Forensic Sciences' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Institute of Forensic Sciences' compliance with those requirements.

In our opinion, the Institute complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings as questioned costs as items 10-1 and 10-2.

### Internal Control over Compliance

The management of Institute is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Institute's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over compliance.

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

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

Institute's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Institute's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Institute's management, others within the entity, and the 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.

San Juan, Puerto Rico  
November 12, 2010

*Ortiz, Rivera, Rivera & Co.*

The stamp 2571464 was affixed to the original of this report.



**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**1. SUMMARY OF AUDIT RESULTS**

- a. The auditors' report expresses an unqualified opinion on the basic financial statements of the Institute of Forensic Sciences.
- b. There were no significant deficiencies on internal controls over financial reporting.
- c. No instances of noncompliance material to the financial statements of Institute of Forensic Sciences were disclosed during the audit.
- d. There were no significant deficiencies on internal controls over major programs.
- e. The auditor's report on compliance with requirements applicable to federal award programs for Institute of Forensic Sciences expressed an unqualified opinion.
- f. Audit findings relative to the major federal award programs for the Institute of Forensic Sciences are reported in number 3 of this schedule.
- g. The programs tested as major programs included:  
  
Edward Byrne Memorial Justice Assistance Grant Program - CFDA 16.738  
Byrne Formula Grant Program - CFDA 16.579
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Institute of Forensic Sciences was determined to be a high-risk auditee.

**2. FINDINGS - FINANCIAL STATEMENTS AUDIT**

None

**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM  
AUDIT**

**a. Edward Byrne Memorial Justice Assistance Grant Program - CFDA No.  
16.738**

**• Condition 10-1 - Equipment and Real Property Management**

The Institute has deficiencies in the execution of property management procedures. During our test of real property and equipment management, we found that the Institute does not perform a reconciliation of the physical inventory with the accounting records. In addition, the Institute does not maintain a separate property ledger for all equipments acquired with federal funds.

Criteria

As per 28CFR, Part 66.32(4)(d) property records shall be accurately maintained. The records should include, for each item of equipment, a description of the equipment including serial number, an identification number, identification of the grant under which the recipient acquired the equipment, the information needed to calculate the federal share of the equipment, the acquisition date and unit acquisition cost, the location, use and condition of the equipment. In addition, states that every two years, at a minimum, a physical inventory should be conducted and the results should be reconciled with the property records to verify the existence, current utilization, and continued need for the equipment. Any discrepancies between quantities determined by the physical inspection and those shown in the accounting records should be investigated to determine the causes of the differences.

Cause

The Institute does not maintain separate records for acquisitions and dispositions for property acquired with federal awards.

**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Effect

The Institute is exposed to the risk of possible unauthorized use and disposition of equipment due to the lack of internal controls and adequate property and equipment records. The possible misappropriation of the equipment acquired with federal funds could result in disallowed costs.

Recommendation

The Institutes' management should determine that proper procedures are in place to ensure that property purchased with federal funds is identified and conduct periodic inventories and follow up inventory discrepancies. In addition, the Institute's management should review all dispositions of property to ensure appropriate valuation and reimbursement to federal awarding agencies.

Questioned Costs

\$ -0-

**b. Byrne Formula Grant Program - CFDA 16.579**

• **Condition 10-2 - Equipment and Real Property Management**

The Institute has deficiencies in the execution of property management procedures. During our test of real property and equipment management, we found that the Institute does not perform a reconciliation of the physical inventory with the accounting records. In addition, the Institute does not maintain a separate property ledger for all equipments acquired with federal funds.

**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Criteria

As per 28CFR, Part 66.32(4)(d) property records shall be accurately maintained. The records should include, for each item of equipment, a description of the equipment including serial number, an identification number, identification of the grant under which the recipient acquired the equipment, the information needed to calculate the federal share of the equipment, the acquisition date and unit acquisition cost, the location, use and condition of the equipment. In addition, states that every two years, at a minimum, a physical inventory should be conducted and the results should be reconciled with the property records to verify the existence, current utilization, and continued need for the equipment. Any discrepancies between quantities determined by the physical inspection and those shown in the accounting records should be investigated to determine the causes of the differences.

Cause

The Institute does not maintain separate records for acquisitions and dispositions for property acquired with federal awards.

Effect

The Institute is exposed to the risk of possible unauthorized use and disposition of equipment due to the lack of internal controls and adequate property and equipment records. The possible misappropriation of the equipment acquired with federal funds could result in disallowed costs.

**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Recommendation

The Institutes' management should determine that proper procedures are in place to ensure that property purchased with federal funds is identified and conduct periodic inventories and follow up inventory discrepancies. In addition, the Institute's management should review all dispositions of property to ensure appropriate valuation and reimbursement to federal awarding agencies.

Questioned Costs

\$ -0-

**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
SCHEDULE OF STATUS OF PRIOR YEARS  
AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**09-1 Edward Byrne Memorial Justice Assistance Grant Program, CFDA No. 16.738**

The Institute has deficiencies in the execution of property management procedures. During our test of real property and equipment management, we found that the Institute does not perform reconciliation of the physical inventory with the accounting records. In addition, the Institute does not maintain a separate property ledger for all equipments acquired with federal funds.

\* Situation still prevails.

**09-2 Edward Byrne Memorial Justice Assistance Grant Program, CFDA No. 16.738**

The Institute internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.

\* Situation was corrected.

**09-3 National Bioterrorism Hospital Preparedness – CFDA No. 93.889**

The Institute has deficiencies in the execution of property management procedures. During our test of real property and equipment management, we found that the Institute does not perform a reconciliation of the physical inventory with the accounting records. In addition, the Institute does not maintain a separate property ledger for all equipments acquired with federal funds.

\* Situation still prevails.

**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
SCHEDULE OF STATUS OF PRIOR YEARS  
AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**08-1 Paul Coverdell Forensic Sciences Improvement Program, CFDA No. 16.742**

The Institute has deficiencies in the execution or property management procedures. During our test of real property and equipment management, we found that the Institute does not perform a reconciliation of the physical inventory with the accounting records. In addition, the Institute does not maintain a separate property ledger for all equipments acquired with federal funds.

\*Situation still prevails.

**08-2 Paul Coverdell Forensic Sciences Improvement Program, CFDA No. 16.742**

The Institute's internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.

\*Situation still prevails.

**EXHIBIT I**

**CORRECTIVE ACTION PLAN**

**ORTIZ, RIVERA, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562



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Teléfono (787)765-0615

## CORRECTIVE ACTION PLAN

November 23, 2010

Cognizant or Oversight Agency for Audit:

The Institute of Forensic Sciences respectfully submits the following corrective action plan for the year ended June 30, 2010.

Name and address of independent public accounting firm: Ortiz, Rivera, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 2010

The findings from the June 30, 2010 Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

### **FINDINGS AND QUESTIONED COSTS: MAYOR FEDERAL AWARD PROGRAM ADUIT**

**a. Edward Byrne Memorial Justice Assistance Grant Program – CFDA No. 16.738**

- **Condition 10-01 – Equipment and Real Property Management**

The Institute has deficiencies in the execution of property management procedures. During our test of real property and equipment management, we found that the Institute does not perform a reconciliation of the physical inventory with the accounting records. In addition, the Institute does not maintain a separate property ledger for all equipments acquired with federal funds.

### Criteria

As per 28CFR, Part 66.32(4)(d) property records shall be accurately maintained. The records should include, for each item of equipment, a description of the equipment including serial number, an identification number, identification of the grant under which the recipient acquired the equipment, the information needed to calculate the federal share of the equipment, the acquisition date and unit acquisition cost, the location, use and condition of the equipment. In addition, states that every two years, at a minimum, a physical inventory should be conducted and the results should be reconciled with the property records to verify the existence, current utilization, and continued need for the equipment. Any discrepancies between quantities determined by the physical inspection and those shown in the accounting records should be investigated to determine the causes of the differences.

### Cause

The Institute does not maintain separate records for acquisitions and dispositions for property with federal awards.

### Effect

The Institute is exposed to the risk of possible unauthorized use and disposition of equipment due to the lack of internal controls and adequate property and equipment records. The possible misappropriation of the equipment acquired with federal funds could result in disallowed cost.

### Recommendation

The Institute's management should determine that proper procedures are in place to ensure that property purchased with federal funds is identified and conduct periodic inventories and follow up inventory discrepancies. In addition, the Institute's management should review all dispositions of property to ensure appropriate and reimbursement to federal awarding agencies.

### Questioned Costs

\$-0-

### Action Taken

The Institutes' management will be determine that proper procedures are in place to ensure that property purchased with federal funds is identified and conduct periodic inventories and follow up inventory discrepancies. In addition, the Institute's management will be reviewing all dispositions of property to ensure appropriate valuation and reimbursement to federal awarding agencies.

#### **b. Byrne Formula Grant Program – CFDA No. 16.579**

- **Condition 10-02 – Equipment and Real Property Management**

The Institute has deficiencies in the execution of property management procedures. During our test of real property and equipment management, we found that the Institute does not perform a reconciliation of the physical inventory with the accounting records. In addition, the Institute does not maintain a separate property ledger for all equipments acquired with federal funds.

### Criteria

As per 28CFR, Part 66.32(4)(d) property records shall be accurately maintained. The records should include, for each item of equipment, a description of the equipment including serial number, an identification number, identification of the grant under which the recipient acquired the equipment, the information needed to calculate the federal share of the equipment, the acquisition date and unit acquisition cost, the location, use and condition of the equipment. In addition, states that every two years, at a minimum, a physical inventory should be conducted and the results should be reconciled with the property records to verify the existence, current utilization, and continued need for the equipment. Any discrepancies between quantities determined by the physical inspection and those shown in the accounting records should be investigated to determine the causes of the differences.

### Cause

The Institute does not maintain separate records for acquisitions and dispositions for property with federal awards.

### Effect

The Institute is exposed to the risk of possible unauthorized use and disposition of equipment due to the lack of internal controls and adequate property and equipment records. The possible misappropriation of the equipment acquired with federal funds could result in disallowed cost.

### Recommendation

The Institute's management should determine that proper procedures are in place to ensure that property purchased with federal funds is identified and conduct periodic inventories and follow up inventory discrepancies. In addition, the Institute's management should review all dispositions of property to ensure appropriate and reimbursement to federal awarding agencies.

### Questioned Costs

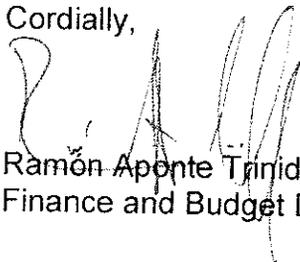
\$-0-

### Action Taken

The Institutes' management will be determine that proper procedures are in place to ensure that property purchased with federal funds is identified and conduct periodic inventories and follow up inventory discrepancies. In addition, the Institute's management will be reviewing all dispositions of property to ensure appropriate valuation and reimbursement to federal awarding agencies.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Mr. Ramón Aponte Trinidad, Finance and Budget Director, at (787) 765-0615, ext. 500 and 501.

Cordially,



Ramón Aponte Trinidad  
Finance and Budget Director