

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2010

Forres Dompart, Sánchez Ruiz LLP

Certified Public Accountants and Business Consultants

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2010

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Honorable José E. Figueroa Sancha
Superintendent
Puerto Rico Police
San Juan, Puerto Rico

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying Statement of Receipts and Disbursements (the Statement) of the Puerto Rico Police of the Commonwealth of Puerto Rico (the PRP) for the year ended June 30, 2010. This Statement is the responsibility of the PRP's management. Our responsibility is to express an opinion on this Statement based on our audit.

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

As described in Note 1 to the Statement, the PRP prepares its Statement of Receipts and Disbursements on a receipts and disbursements method of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the Statement referred to above presents fairly, in all material respects, the receipts and disbursements of the Puerto Rico Police of the Commonwealth of Puerto Rico for the year ended June 30, 2010, in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards* we have also issued our report dated December 16, 2010, on our consideration of the PRP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Our audit was conducted for the purpose of forming an opinion on the PRP's Statement of Receipts and Disbursements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the Statement of the PRP. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the Statement. The information has been subjected to the auditing procedures applied in the audit of the Statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Statement or to the Statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the Statement as a whole.

As discussed in Note 6 to the 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.

Tomas Román, Accountant, CPA

December 16, 2010
License No. 221
San Juan, Puerto Rico

The stamp number 2562781 was affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

**STATEMENT OF RECEIPTS AND DISBURSEMENTS
YEAR ENDED JUNE 30, 2010**

Program	State funds		Federal funds		(Totals Memorandum only)	
	Receipts	Disbursements	Receipts	Disbursements	Receipts	Disbursements
Management and Administration	\$ 25,068,096	\$ 22,105,662			\$ 25,068,096	\$ 22,105,662
Security and Watch of Public Housing	24,822,321	24,855,781	\$ 3,346,564	\$ 4,904,541	28,168,885	29,760,322
FURA	18,732,200	22,929,779			18,732,200	22,929,779
Criminal Investigation	93,799,379	116,954,744	4,568,260	2,282,278	98,367,639	119,237,022
Human Resources	15,164,517	14,914,765			15,164,517	14,914,765
Community Relations	7,728,926	8,954,807	7,491	4,972	7,736,417	8,959,779
Auxiliary Service of Operations	23,414,984	25,373,390			23,414,984	25,373,390
Police Watch	429,977,897	435,283,845	41,810,544	41,758,023	471,788,441	477,041,868
Governors' Security	3,448,312	4,165,976			3,448,312	4,165,976
911 Emergency Service	9,967,000	11,720,171			9,967,000	11,720,171
Drug Free Zone	5,092,339	3,976,668			5,092,339	3,976,668
Control and Supervision of Transit	37,752,029	39,233,430	2,593,523	1,458,630	40,345,552	40,692,060
Special Accounts	67,332,455	49,951,998			67,332,455	49,951,998
	\$762,300,455	\$ 780,421,016	\$ 52,326,382	\$ 50,408,444	\$ 814,626,837	\$ 830,829,460

See accompanying notes to statement of receipts and disbursements.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

NOTES TO STATEMENT OF RECEIPTS AND DISBURSEMENTS

YEAR ENDED JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The Puerto Rico Police (the PRP) is an agency of the Commonwealth of Puerto Rico governed by Law No. 53 of June 10, 1996, as amended. The PRP was created to protect persons and property, to maintain and keep the public order, to observe and secure the protection of the civil rights of the citizens, to prevent discrimination and persecute crime and enforce obedience to the laws and municipal ordinances. The Police Superintendent is appointed by the Governor of the Commonwealth of Puerto Rico.

Basis of presentation

The accounts of the PRP are organized on the basis of two fund types: state funds and federal funds. The PRP maintains appropriations for several individual state and federal funds within each fund type. As more fully explained in the section "Basis of Accounting" below, each fund is accounted for with a set of accounts which include only receipts and disbursements. No balance sheet accounts are reported. The individual funds account for the governmental resources allocated to them for purposes of carrying on specific activities in accordance with laws, regulations and other restrictions. State funds are appropriated by the Legislature of the Commonwealth of Puerto Rico and are the funds through which most functions typically are financed. Federal funds reflect the federal financial assistance managed by the PRP from programs funded by the Federal Government.

The individual funds included in these fund types are classified in the following programs:

Management and Administration - This fund is used to account for resources and expenditures related to the supervision and coordination of all services and operation of central level to each police commandance around the island.

Security and Watch of Public Housing - This fund is used to account for resources and expenditures related to watch service and security of public housing projects to prevent and eliminate groups dedicated to the traffic of drugs and other criminal activities on those public facilities.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE

NOTES TO STATEMENT OF RECEIPTS
AND DISBURSEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of presentation (continued)

FURA - This fund is used to account for the resources and expenditures related to the establishment of quick action plans in the terrestrial area, aviation and coast to identify, intercept and confiscate airplanes and boats that try to enter Puerto Rico's coasts. These activities work in coordination with the Federal Custom, the Drug Enforcement Administration, the Coast Guard, the Federal Aviation and the United States Air Force.

Criminal Investigation - This fund is used to account for resources and expenditures related to the investigations of drug trafficking and the use of drugs, organized crime, carjacking, fires and the use of illegal explosives, and Type I and other offenses.

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 the security programs and public watch.

Auxiliary Service of Operations - This fund is used to account for resources and expenditures related to auxiliary activities and complementary police services directed to fight the criminal incidence and to administer the laws and regulations for the issuance of good behavior certificates, licenses and permits for use of guns and private detective schools.

Police Watch - This fund is used to account for resources and expenditures related to services for watching and protecting the security of the community.

Governor's Security - This fund is used to account for resources and expenditures related to security services and protection of the current and previous governors, their families, and the Luis Muñoz Marin Foundation.

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.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

**NOTES TO STATEMENT OF RECEIPTS
AND DISBURSEMENTS (CONTINUED)**

YEAR ENDED JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of presentation (continued)

Drug Free Zone - This fund is used to account for resources and expenditures related to the program responsible for the prevention, protection and attention of the health, security, and welfare of the 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 adequate level of security in the public highways.

Special Accounts - This fund is used to account for resources or funds that are deposited for specific purposes in accordance with its applicable laws. They may come from service fees, donations from citizens and private entities, other collections from governmental entities, and authorizations by the Legislature of the Commonwealth of Puerto Rico, which are designed to attain specific purposes. The expenditures charged to these accounts are authorized by legislation previously approved.

Basis of accounting

The PRP follows a receipts and disbursements method of accounting to account for all funds administered. Under this method, cash or funds transferred-in are recognized as revenues when received, and expenditures are recognized when funds are disbursed or transferred-out. Therefore, the Statement of Receipts and Disbursements is not intended to present the PRP's results of operations in accordance with generally accepted accounting principles in the United States of America.

Budgetary accounting

Formal budgetary accounting is employed as a management control tool for all funds of the PRP. Annual operating budgets are adopted each fiscal year through passage of an annual budget which is approved by the Legislature of the Commonwealth of Puerto Rico and amended as required throughout the year. Effective June 30, 2001, all unencumbered budget appropriations of state funds lapse after the end of each fiscal year.

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

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

**NOTES TO STATEMENT OF RECEIPTS
AND DISBURSEMENTS (CONTINUED)**

YEAR ENDED JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Totals memorandum only

The totals memorandum only columns are presented only to facilitate additional analysis. These columns represent a summation of the combined receipts and disbursements. Consequently, amounts shown in these columns are not comparable to a consolidation and do not represent the total receipts and disbursements of the PRP.

Subsequent events

Management has evaluated subsequent events through December 16, 2010, the date the financial statement was available to be issued.

2. FUND ADVANCES

The PRP receives fund advances from the Treasury Department of Puerto Rico (PRDT) for the interim financing of federal programs, as authorized by Law No. 21 from the year 1979. This Law establishes that all fund advances made will be reimbursed to the General Fund of the State's Treasury as soon as the corresponding federal funds are received. During the fiscal year ended June 30, 2010, the total of funds advanced for financing the federal programs managed by the PRP amounted to \$2,675,338. Also, the total payments made by the PRP during the fiscal year ended June 30, 2010 of the funds previously advanced by the PRDT were \$2,327,586.

3. RETIREMENT PLANS

All full-time employees are covered, and must participate in the employee retirement plan administered by the Employees' Retirement System of the Government of Puerto Rico and its instrumentalities, which is a cost-sharing multiple employer plan. Employees must contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the salary in excess of \$550. The PRP contributes 9.275% of total gross salaries. Total contributions made to the pension plan during the year ended June 30, 2010, amounted to \$51,766,424.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

**NOTES TO STATEMENT OF RECEIPTS
AND DISBURSEMENTS (CONTINUED)**

YEAR ENDED JUNE 30, 2010

4. COMPENSATED ABSENCES

The employees of the PRP are classified as either civil or force personnel. All employees accrue regular vacation and sick leave at 2.5 days and 1.5 days per calendar month, respectively. The allowed maximum number of accumulated days of regular vacation and sick leave is 60 days and 90 days, respectively.

During fiscal year 1997-98, the Legislature of the Commonwealth of Puerto Rico amended the Public Service Personnel Law to allow certain component units and the executive agencies of the Commonwealth to pay annually the accrued vacations and sick leave earned in excess of the limits mentioned above.

5. COMMITMENTS

Operational Leases - The PRP is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations; therefore, neither the assets nor the liabilities of the lease agreements are reflected in the accounting records. Most of the real property is leased from the Puerto Rico Public Buildings Authority, a component unit of the Commonwealth of Puerto Rico.

Rent paid during the fiscal year ended June 30, 2010, under these lease agreements amounted to approximately \$11.4 million. Information of the future minimum rental payments required under operating leases was not available.

6. CONTINGENCIES

Litigation - The PRP is defendant in lawsuits arising in the normal course of 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.

Federal Awards - The PRP participates in a number of federal financial assistance programs funded by the federal government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantors or their representatives. If expenditures are disallowed due to noncompliance with grant program regulations, the PRP may be required to reimburse the grantors for such expenditures.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

**NOTES TO STATEMENT OF RECEIPTS
AND DISBURSEMENTS (CONTINUED)**

YEAR ENDED JUNE 30, 2010

6. CONTINGENCIES (CONTINUED)

The Report on Compliance with Requirements Applicable to Each Major Federal Award Program and on Internal Control over Compliance in Accordance with OBM Circular A-133 for the year ended June 30, 2010, disclosed several instances of noncompliance with applicable laws and regulations that were considered significant deficiencies. Some of these significant deficiencies were also considered material weaknesses.

7. PAYROLL BANK ACCOUNT OVERDRAFT

The Special Payer submits, on a monthly basis, a request of funds based on payroll expenditures of the previous month. The PRP has a service contractor that determines actual payroll related expenditures. Once such expenditures are determined, the Special Payer authorizes the GDB to transfer such amount to the service contractor, who performs the payroll processing and related payment procedures.

As of June 30, 2010, the overdraft of the Special Payer payroll bank account amounted to \$20,196,241, since in prior years the cumulative payroll expenditures were greater than the cumulative amount of funds requested plus the monthly interest charges made by the bank for the outstanding overdraft balance. The expenditures related to the bank overdraft are recorded in the accounting records once the Special Payer receives the funds to repay such bank overdraft. Total interest charges for the fiscal year ended June 30, 2010 amounted to \$871,634. There is no repayment agreement between PRP and GDB.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2010

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Federal Expenditures
CASH ASSISTANCE:		
<u>U.S. Department of Housing and Urban Development / Pass through the Puerto Rico Public Housing</u>		
Public and Indian Housing	14.850	<u>\$ 4,904,541</u>
<u>U.S. Department of Justice / Direct Program</u>		
FBI – Organized Crime Drug Enforcement Task Force	16.XXX	22,543
FBI – Criminal Investigation Task Force	16.XXX	138,043
Violent Crimes Major Offenders Theft Task Force	16.XXX	60,570
Drug Enforcement Administration	16.XXX	518,711
Mortgage Fraud Task Force	16.XXX	2,250
FBI – Safe Street Task Force	16.XXX	45,075
Joint Terrorism Task Force	16.XXX	<u>33,806</u>
		<u>820,998</u>
<u>U.S. Department of Justice / Pass through the Procurement for Woman Office of Puerto Rico</u>		
Stop Violence Against Woman	16.588	<u>260,887</u>
<u>U.S. Department of Justice / Pass through the Municipality of San Juan</u>		
Project Safe Neighborhood	16.609	<u>212,781</u>
<u>U.S. Department of Justice / Pass through the Interamerican University of Puerto Rico</u>		
Project Safe Neighborhood	16.609	97,829
Anti-Gang Initiative Program	16.744	<u>19,748</u>
		<u>117,577</u>

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**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Federal Grantor / Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures
CASH ASSISTANCE (CONTINUED):		
<u>U.S. Department of Transportation / Pass through the Commission for Security of Transit of Puerto Rico</u>		
State and Community Highway Safety	20.600	\$ <u>1,458,630</u>
<u>U.S. Department of the Treasury / Direct Program</u>		
Internal Revenue Service	21.XXX	<u>8,703</u>
<u>U.S. Department of Education / Pass through the Office of the Governor of Puerto Rico</u>		
State Fiscal Stabilization Fund – Government Services, Recovery Act	84.397	<u>41,497,136</u>
<u>U.S. Department of Health and Human Services / Direct Program</u>		
Food and Drug Administration–Criminal Investigation Task Force	93.XXX	<u>5,443</u>
<u>U.S. Department of Homeland Security / Direct Program</u>		
US Immigration Custom Enforcement	97.XXX	56,705
National Explosive Detection Canine Team Program	97.072	<u>493,229</u>
		<u>549,934</u>

(continue)

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Federal Grantor / Pass-Through Grantor/ <u>Program or Cluster Title</u>	Federal CFDA <u>Number</u>	Federal <u>Expenditures</u>
CASH ASSISTANCE (CONTINUED):		
<u>U.S. Department of Homeland Security / Pass through the Puerto Rico State Agency of Emergency and Disaster Administration</u>		
Citizen Corps	<u>97.053</u>	\$ 4,972
Homeland Security Grant Program	97.067	<u>566,842</u>
		<u>571,814</u>
		<u>\$ 50,408,444</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2010

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Puerto Rico Police of the Commonwealth of Puerto Rico (the PRP) under programs of the federal government for the year ended June 30, 2010. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the PRP, it is not intended to and does not support to present the financial position, changes in net assets, or cash flows of the PRP.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Expenditures reported on the Schedule are reported on the receipts and disbursements method of accounting. It is drawn primarily from the PRP's internal accounting records, which are the basis for the PRP's Statement of Receipts and Disbursements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for States, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- b. Pass-through entities identifying numbers were not available.
- c. The titles of federal awards included in the Schedule are presented as described in the Catalog of Federal Domestic Assistance. The titles of federal programs that are not included in the Catalog are identified by the grantor federal agency's number followed by ".XXX".

3. RELATIONSHIP TO THE STATEMENT

Expenditures included in the Schedule agree with the amounts included in the accompanying Statement of Receipts and Disbursements.



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Honorable José E. Figueroa Sancha
Superintendent
Puerto Rico Police
San Juan, Puerto Rico

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

We have audited the Statement of Receipts and Disbursements (the Statement) of the Puerto Rico Police of the Commonwealth of Puerto Rico (the PRP) for the year ended June 30, 2010, and have issued our report thereon dated December 16, 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. Our report on the Statement discloses that, as described in Note 1 to the Statement, the PRP prepares its Statement on the receipts and disbursements method of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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Honorable José E. Figueroa Sancha
Superintendent
Puerto Rico Police
San Juan, Puerto Rico

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

Internal Control over Financial Reporting (continued)

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the PRP's Statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding No. 10-01 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding No. 10-02 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the PRP's Statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 Findings No. 10-02 through 10-04.

We also noted certain other matters that we reported to management of the PRP in a separate letter dated December 16, 2010.

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

Honorable José E. Figueroa Sancha
Superintendent
Puerto Rico Police
San Juan, Puerto Rico

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

Compliance and Other Matters (continued)

This report is intended solely for the information and use of the management and officials of the Puerto Rico Police, the Commonwealth of Puerto Rico, federal awarding agencies, pass-through entities, and other regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Torres Blompart, Sánchez Ruiz LLP

December 16, 2010
License No. 221
San Juan, Puerto Rico

The stamp number 2562782 was
affixed to the original of this report.



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*Also admitted in the State of Florida
Admitted in the State of New Jersey

Honorable José E. Figueroa Sancha
Superintendent
Puerto Rico Police
San Juan, Puerto Rico

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the Puerto Rico Police of the Commonwealth of Puerto Rico (the PRP) 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. The PRP's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the PRP's management. Our responsibility is to express an opinion on the PRP's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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. Our audit does not provide a legal determination of the PRP's compliance with those requirements.

As described in Finding No. 10-02 in the accompanying schedule of findings and questioned costs, the PRP did not comply with the requirements regarding Allowable Costs / Cost Principles that are applicable to its major program, State Fiscal Stabilization Fund – Government Services, Recovery Act (CFDA No. 84.391). Compliance with such requirements is necessary, in our opinion, for the PRP to comply with the requirements applicable to that program.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

Compliance (continued)

In our opinion, except for the noncompliance described in the preceding paragraph, the PRP complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010. The results of our auditing procedures also disclosed another 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 and questioned costs as Findings No. 10-03 and 10-04.

Internal Control Over Compliance

The management of the PRP is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the PRP's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 the type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Honorable José E. Figueroa Sancha
Superintendent
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San Juan, Puerto Rico

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

Internal Control Over Compliance (continued)

We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding No. 10-02 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings No. 10-01, 10-03 and 10-04 to be significant deficiencies.

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

This report is intended solely for the information and use of the management and officials of the Puerto Rico Police, the Commonwealth of Puerto Rico, federal awarding agencies, pass-through entities, and other regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Timothy Thompson, Accountant, CPA

December 16, 2010
License No. 221
San Juan, Puerto Rico

The stamp number 2562783 was
affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

SUMMARY OF AUDITORS' RESULTS

1. The independent auditors' report on the Statement of Receipts and Disbursements expressed that such statement was prepared using the receipts and disbursements method of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
2. Deficiencies on internal control over financial reporting were identified, one of which was considered a material weakness and one of which was considered a significant deficiency.
3. Deficiencies on internal control over compliance with requirements applicable to major federal award programs were identified, one of which was considered a material weakness and others were considered significant deficiencies.
4. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed the following types of opinions on each major program:
 - a. Unqualified:
CFDA 14.850 Public and Indian Housing
 - b. Qualified:
CFDA 84.397 State Fiscal Stabilization Fund – Government Services, Recovery Act
5. The Organization did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.
6. The audit disclosed findings required to be reported under OMB Circular A-133.
7. A threshold of \$1,512,253 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

SUMMARY OF AUDITORS' RESULTS (CONTINUED)

8. The PRP's major programs were the following:

<u>Name of federal grant</u>	<u>CFDA number</u>	<u>Questioned Costs</u>
Public Housing Capital Fund	14.850	\$ <u>-</u>
State Fiscal Stabilization Fund – Government Services, Recovery Act	84.397	\$ <u>38,985¹</u>

¹ There is an additional undetermined amount for a portion of Finding No. 10-02.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINDING NO. 10-01 ACCOUNTING RECORDS

Federal programs

All federal financial assistance programs

Category

Internal control

Compliance requirement

Special tests and provisions

Condition found

During our audit procedures for the fiscal year ended June 30, 2010, we noted the following deficiencies related to the accounting procedures and financial reporting practices of the PRP:

- The Treasury Department of the Commonwealth of Puerto Rico provides accounting services to the PRP through its accounting system (PRIFAS). Such system has inappropriate as well as incomplete month-end and year-end reconciliation and closing procedures which prevent the timely processing of adjustments and financial statements. Many transactions and adjustments are posted after the applicable closing with a retroactive effect since information is not readily available for analysis because of delays in the processing of information through PRIFAS.
- The PRP expenditures of state funds exceed the budgeted amount by approximately \$18 million. The lack of effective controls and monitoring procedures preclude the timely detection of any insufficiency of funds during the disbursement process.
- The PRP should improve the filing procedures, communication and coordination to permit the prompt retrieval of documents requested, as further explained in Findings No. 10-02 and 10-04.
- The PRP should improve its internal control and procedures for the recording of federal expenditures. PRP failed to record some federal expenditure in a timely manner.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINDING NO. 10-01 ACCOUNTING RECORDS (CONTINUED)

Criteria

Sections 20(a) and (b) (1) to (3) and (6) on Subpart C of the OMB Common Rule establish that:

- a. A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:
 - i. Permit preparation of reports required by this part and the statutes authorizing the grant, and
 - ii. Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.
- b. The financial management systems of other grantees and subgrantees must meet the following standards:
 - i. Financial reporting - Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
 - ii. Accounting records - Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
 - iii. Internal control - Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINDING NO. 10-01 ACCOUNTING RECORDS (CONTINUED)

Criteria (continued)

- iv. Budget control – Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

- v. Source documentation - 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.

Sections 42(b) (1) and (2) on Subpart C of the OMB Common Rule establish that records must be retained for three years from the starting date. If any litigation, claim, negotiation, audit or other action involving the records has been started before the expiration of the 3-years period, the records must be retained until completion of the action and resolution of all issues which arise from it, or until the end of the regular 3-years period, whichever is later.

OMB Circular A-87, Attachment A (C) 4a, states that applicable credits for receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs, shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate. Examples of such transactions are: purchase discounts, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges.

Effect

It is very difficult for the PRP to prepare accurate and timely financial reports because of the limitations on its current accounting system and reporting practices.

Questioned costs

None

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINDING NO. 10-01 ACCOUNTING RECORDS (CONTINUED)

Recommendations

The PRP shall revise its accounting practices and policies to provide for an accurate reporting financial system. This will require a sophisticated plan in coordination with the Treasury Department for the implementation of an accounting and financial management system that permits the preparation of accurate financial reports required by the different oversight entities in a timely manner.

The PRP should revise and improve the budget controls in order to identify any insufficiency of funds that could occur due to unexpected situations, and that could assist management in making correct decisions and actions to address those issues identified. Also, the PRP should establish a reporting tool within the accounting system to provide for a report of expenses budgeted versus actual for each fund and/or program that could be analyzed on a monthly basis.

The PRP shall emphasize the importance of maintaining an adequate filing system that allows the prompt retrieval of documents and related supporting documentation. The PRP shall plan and implement a mechanized system that permits the efficient filing, tracking and retrieval of filed documents.

The PRP shall adequately train its personnel as to the importance of records safeguarding procedures, and the proper coordination and communication for the retrieval of documents when needed.

Additionally, the PRP shall evaluate its internal controls and procedures established for performing the expenditures adjustments related to claims of federal costs to ensure transactions are accounted for in a timely manner.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINDING NO. 10-02 DISBURSEMENT TEST

Federal program

CFDA 84.397 State Fiscal Stabilization Fund – Government Services, Recovery Act

Category

Compliance / Internal control

Compliance requirements

Allowable costs / cost principles

Condition found

In testing compliance and internal controls over allowable cost/cost principles and procurement and suspension and debarment requirements, we selected three (3) disbursements (representing 79% of the total disbursements) from the State Fiscal Stabilization Fund – Government Services, Recovery Act program. Total disbursements for the fiscal year ended June 30, 2010 amounted to \$41,497,136.

During the performance of the disbursement test for this program, we noted the following exceptions:

- a) In one (1) of three (3) disbursements tested, amounting to \$5,752,911 (journal voucher no. 4021078330 dated 2/5/10), we noted that the PRP charged the expenditure based on an estimated amount rather than actual costs. The disbursement was related to the liquidation of excess sick leave accruals to approximately 11,000 officers and employees of the PRP.

To determine whether amounts claims were accurate, we selected a sample of 30 records. In one (1) case, we noted that the PRP started a process to recover from an officer an incorrect payment for excess accrued sick leave. The PRP was unable to provide for our examination an analysis to determine whether the total amount estimated and charged to the program was over or under the actual excess accrued sick leave as per the Human Resources records. Therefore, we were unable to determine the actual amount of questioned costs.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINDING NO. 10-02 DISBURSEMENT TEST (CONTINUED)

Condition found (continued)

- b) Also, the PRP charged the above expenditure amount ((journal voucher no. 4021078330) to the cost objective "Salaries – regular positions" (acct. 1110), instead of the correct cost objective of "Liquidation of Excess Sick Leave Accrual (acct. 1431).

- c) In the other two (2) disbursements tested, (journal vouchers no. 402107870 dated 9/8/09 and 402107871 dated 9/2/09), we noted that the PRP claimed the salary expense of five (5) police officers although such salaries were also claimed to other federal program. Total amount claimed was \$38,985. Such amount has been questioned.

Criteria

Sections 20(a) and (b) (3) to (6) on Subpart C of the OMB Common Rule establish that:

- a. A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:
 - i. Permit preparation of reports required by this part and the statutes authorizing the grant, and
 - ii. Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

- b. The financial management systems of other grantees and subgrantees must meet the following standards:
 - i. Internal control - Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINDING NO. 10-02 DISBURSEMENT TEST (CONTINUED)

Criteria (continued)

- ii. Budget control - Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.
- iii. Allowable cost - Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.
- iv. Source documentation - 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.

Effect

Above conditions could result in noncompliance with federal regulations and cost disallowances by the grantors.

Questioned costs

\$ 38,985 for condition c

Undetermined for condition a

Recommendations

We recommend the PRP to perform a total review of the accrued sick leave records included in journal voucher no. 4021078330 to ensure amounts paid were accurate. Any amounts paid in excess should be recovered and returned to the respective program.

Also, we recommend the PRP to establish adequate procedures and controls, which shall consider, among others, the following:

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINDING NO. 10-02 DISBURSEMENT TEST (CONTINUED)

Recommendations (continued)

- Establish and implement written policies and procedures for all aspects of the program, including controls for proper review and authorization during the processing and payment of programs' expenditures.
- Payment documents and related supporting documentation shall be thoroughly reviewed before they are recorded and processed for payment. All payment vouchers shall be properly authorized by the respective PRP's representatives and shall be supported with all the required documentation.
- Provide adequate training to employees regarding each program requirements and proper disbursement processing and coding procedures.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINDING NO. 10-03 PROPERTY AND EQUIPMENT

Federal programs

All federal financial assistance programs

Category

Internal control

Compliance requirement

Equipment and real estate property management

Condition found

To determine compliance with equipment and real estate property management requirements, we obtained an understanding of state's policies and procedures and also, we reviewed the status of the internal control deficiencies reported in prior years. Then, we performed an assessment to determine if: a) state's policies and procedures have been complied with; b) established controls are effective; and c) to assess control risk. After obtaining an understanding of the state's policies and procedures, we noted the following internal control deficiencies:

- a. The Property Division of the PRP does not maintain an effective property and equipment system from which a current and complete subsidiary ledger can be prepared;
- b. A physical inventory was not taken, at least on an annual basis, as required by applicable regulations;
- c. The Property Division has not designed an effective control to gather the information of the location of the property assigned to each bureau or area; and
- d. Whenever property is acquired with federal funds under the reimbursement method, the PRP does not have effective procedures established to reclassify the purchase made with state funds to federal funds once the reimbursement of federal funds is received. After the expenditure is recognized in the federal program account, the source of funds indicated in the property records should be modified.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINDING NO. 10-03 PROPERTY AND EQUIPMENT (CONTINUED)

Criteria

Section 32 (b) Subpart C of the OMB Common Rule establishes that a State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures. In addition, section 32 (d) establishes that procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- a. Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- b. A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- c. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- d. Adequate maintenance procedures must be developed to keep the property in good condition.
- e. If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Article XIV of the State's Property Rules and Regulations ("Reglamento #11: "Control y Contabilidad de la Propiedad") sections (A) and (B) establish that the property registers of the agencies should be supported by a physical inventory. The Property Division of the Puerto Rico Treasury Department (PRTD) will establish the date in which the agencies will perform their annual inventory.

Article XIV of the State's Property Rules and Regulations ("Reglamento #11: "Control y Contabilidad de la Propiedad") section (D) establishes that the agencies will prepare the inventory in an electronic form using the SC795 Form, Fixed Assets Physical Inventory. The form SC795 and SC795.1 (Physical Inventory Certification) forms will be sent to the PRTD. The inventory should include the following: (1) description of the property; (2) the acquisition date; (3) cost of the property; (4) property class; (5) property number, and (6) source of funds for the purchase of property.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINDING NO. 10-03 PROPERTY AND EQUIPMENT (CONTINUED)

Criteria (continued)

Article XIV of the State's Property Rules and Regulations ("Reglamento #11: "Control y Contabilidad de la Propiedad") section (G) establishes that once the inventory count is completed, an officer not in charge of the inventory procedures should compare the results with the property records. Differences should be reconciled and property records adjusted, as applicable.

Effect

The PRP is exposed to the risk of possible unauthorized use and disposition of equipment due to the lack of adequate internal controls and adequate property and equipment records.

Questioned costs

None

Recommendations

The PRP shall design and establish adequate controls and procedures to be followed by the Property Division. Property records shall include the required information for equipment purchased with federal funds to improve accountability, control and to detect possible loss or theft of property. All property records shall be thoroughly reviewed to make sure that all information included in them is accurate and pertinent.

Also, the PRP shall design and establish reporting procedures that will allow them to maintain in the property registers the correct location of the property at all times. The reporting procedures should allow PRP to maintain the source of funds used to acquire the property even when acquired under the reimbursement method of funding.

Additionally, a physical inventory of all equipment and property shall be performed at least annually and reconciled with the property records. Verification should be made to ascertain that property and equipment is being properly safeguarded and used solely for the authorized purposes.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINDING NO. 10-04 REPORTING

Federal programs

CFDA 14.850 Public and Indian Housing
CFDA 84.397 State Fiscal Stabilization Fund – Government Services, Recovery Act

Category

Compliance / Internal control

Compliance requirement

Reporting

Condition found

We performed procedures to identify the reporting requirements applicable to the PRP, obtained an understanding of the internal control, and determined the criteria and methodology used in compiling and reporting the data included in the applicable reports for each major program selected. After the performance of such procedures, we noted the following conditions:

CFDA 14.850 Public and Indian Housing

For this program, the PRP is required to submit monthly incidents reports to the Puerto Rico Public Housing Administration. To determine compliance with this reporting requirement, we requested the reports and supporting data used to prepare the reports for the months of August 2009, October 2009, December 2009, February 2010 and April 2010. We noted that the report for October 2009 was submitted on December 18, 2009 (18 days after its due date) and the April 2010 report was submitted on August 18, 2010 (80 days after its due date). Also, there was no evidence available for our review to ascertain whether the report for August 2009 was submitted.

Also, we noted that the number of criminal incidents and work performed included in the reports selected for test did not agree with the Monthly Activity Reports (per Project). Management was unable to reconcile the differences.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINDING NO. 10-04 REPORTING (CONTINUED)

Condition found (continued)

CFDA 84.397 State Fiscal Stabilization Fund – Government Service, Recovery Act

To test compliance with the reporting requirements contained in the memorandum of agreement in connection with the American Recovery and Reinvestment Act (ARRA) of 2009 between the Puerto Rico Governor's Office (PRGO) and PRP applicable to the State Fiscal Stabilization Fund – Government Service, Recovery Act program funds, we requested the reports for the months of September 2009, November 2009, January 2010, March 2010, and May 2010. As per information submitted for our review, we noted that the PRP submitted all the reports requested on August 13, 2010, after their original due dates.

Criteria

Section 42 (e) (1) on Subpart C of the OMB Common Rule establishes that the awarding agency and the Comptroller General of the United States or any of their authorized representatives, shall have the right of access to any pertinent books, documents, papers, or other records of grantees and subgrantees which are pertinent to the grant, in order to make audits, examinations, excerpts, and transcripts.

The contract for community policing service with the Puerto Rico Public Housing Administration (PRPHA), Article III (a), establishes that the PRP will provide the PRPHA, on a monthly basis or as requested by the PRPHA, copies of such incident reports, arrest reports or other public documents that evidence or substantiate actual criminal activity in or connected with the public housing developments serviced under the contract.

Section 41 (b) (4) in Subpart C of the OMB Common Rule establishes that when reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period. When required on an annual basis, they will be due 90 days after the grant year. Final reports will be due 90 days after the expiration or termination of grant support.

The memorandum of understanding in connection with the American Recovery and Reinvestment Act (ARRA) of 2009 between the Puerto Rico Governor's Office (PRGO) and PRP, Article V (5.1), establishes that the PRP agreed to use all ARRA Funds under the Grant in a manner that is transparent to the public and to provide the PRGO, in a clear, accurate and timely manner, all necessary information and documents as may be necessary for the preparation of reports to fulfill reporting requirements by the PRGO and the PRP under ARRA and any applicable ARRA regulations. The information included in Annex I of the memorandum of understanding shall be provided by PRP to the PRGO on a monthly basis by the fifth day of each calendar month.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINDING NO. 10-04 REPORTING (CONTINUED)

Effect

Noncompliance with the reporting requirements, the lack of adequate supporting documentation for the preparation of reports and generating the data could lead to significant administrative actions by the grantor, including reduction in amounts to be awarded. It could also be interpreted as a failure to achieve the programs objectives.

Questioned costs

None

Recommendations

We recommend the PRP to establish adequate procedures and controls, which shall consider, among others, the following:

- Establish policies and procedures to provide reasonable assurance that the PRP identifies, captures, and exchanges accurately the statistical data. Additionally, the PRP shall process and maintain electronically the statistical data to facilitate its analysis and maintain the corresponding audit trail. This would enable the PRP to maintain an information system capable of providing reliable processing of the performance information related to federal awards.
- Establish adequate policies and procedures to ensure that reports are submitted on or before their due dates.
- Establish adequate supervisory procedures in order to identify, in a reasonable period of time, deficiencies or possible deficiencies in the procedures or guidance established by management in order to ascertain that the PRP reports the information as required by grantors, accurately and on a timely manner.

These procedures would enable the PRP to identify compliance with the goals established by the grantors or identify issues that could affect the PRP's compliance with the programs requirements as established in the grants or cooperative agreements.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO POLICE DEPARTMENT
Summary Schedule of Prior Year Findings
YEAR ENDED JUNE 30, 2010**

Finding Number	Repeat in 2010	1st appear in year	CFDA Number	Questioned Cost	Status	Management Corrective Action Plan	Compl. Date	Responsible Officer	Contact Number	Ext.
2009-01	10-01	2002	N/A	\$ -	In Process	<u>ACCOUNTING RECORDS:</u> 1. PRIFAS accounting system deficiency.	Jul-12	Luis Fields (Finance Division)	3087	
		2002	N/A	\$ -	In Process	2. Control in programmatic activities allocation in kind contribution.	Oct-10	Laura Miranda (Fed. Proposal Office)	3071	
		2002	N/A	\$ -	In Process	3. Filing procedures, communication & coordination.	Oct-10	(Fed. Proposal Office) & Mildred Reyes (Budget Office)	3071, 3070, 3075	
		2009	N/A	\$ -	In Process	4. Recording of Federal Expenditures	Oct-10	(Fed. Proposal Office) & Mildred Reyes (Budget Office) Luis Fields (Finance Division)	3071, 3070, 3075, 3087	
2009-02	10-02	2005	14,872, 16,XXX, 16,588, 20,600, 97,067, 97,072	\$ -	Partially Completed	2. Control in programmatic activities allocation in kind contribution.	Jun-10	Laura Miranda (Fed. Proposal Office)	3071	
		2005		\$ -	Completed	<u>DISBURSEMENT TEST:</u> A. Activities report not signed and/or dated by supervisor.				
		2009		\$ -	In Process	C. Suspension & department certification not found.	Jul-10	Luis Perez (Purchase Division) Mildred Reyes (Budget Office)	3133	
2009-03	N/A	2009	97,067	\$ -	In Process	<u>CASH MANAGEMENT:</u> Days elapsed from the transfer date through the disbursement date exceed more than 3 days established.	Jul-10	Luis Fields (Finance Division)	3070, 3087	
2009-04	10-03	2005	20,600 97,067	\$ -	Partially Completed	<u>PROPERTY AND EQUIPMENT:</u> Deficiencies in the information required in the property records, annual inventory, disposal of equipment.	Oct-10	Laura Miranda (Fed. Proposal Office)	3071	
		2005		\$ -	In Process	A. Effective Property & Equipment System	Oct-10	Vladimir Ojeda (Executive Officer, SASA)	3065	
		2009		\$ -	In Process	B. Physical Inventory	Aug-10	Zulma Sepulveda & Ivelisse Morales	3145	

**COMMONWEALTH OF PUERTO RICO
 PUERTO RICO POLICE DEPARTMENT
 Summary Schedule of Prior Year Findings
 YEAR ENDED JUNE 30, 2010**

Finding Number	Repeat In 2010	1st appear In year	Finding (Condition Found)	CFDA Number	Questioned Cost	Status	Management Corrective Action Plan	Compl. Date	Responsible Officer	Contact Number
2009-05	10-04	2002	<p>REPORTING:</p> <p>1. Reports submitted after its due date (late).</p> <p>2. Discrepancies in data reported.</p> <p>3. Unable to examine documents requested for review.</p>	<p>14.872, 16.XXX, 16.588, 20.600, 97.067, 97.072</p>	\$ -	Partially Completed	<p>For Prog. 16.588 - The Budget Office established the 7th day of each month (beginning on March) will be finishing the report, and will submit copy (by Fax) of it to the Oficina del Procurador de la Mujer. They also will coordinate with the Project Director to ensure the delivery of the original report the 10th day monthly.</p> <p>All other programs conditions will be evaluated by the Federal Proposal Office. As part of this process they have the Follow-up & Monitoring Division, created under the General Rule 2008-14 "Reorganizacion de la Division de Propuestas Federales para demeritarse Oficina". As a result, on July 2009 was recruited Nancy Arce, who will be trained in other to perform all reporting and monitoring tasks. Efforts to bring training to Project Directors will be done as part of the corrective actions plan. All errors (defined by the Federal Proposal Office) will begin after the issuance of the S.A.R. 2009. Projected starting period: May 2010.</p> <p>This condition will be evaluated by the Federal Proposal Office in coordination with Project Directors. As part of this process they've the Follow-up & Monitoring Division, created under the General Rule 2009-14 "Reorganizacion de la Division de Propuestas Federales para demeritarse Oficina". As a result, on July 2009 was recruited Nancy Arce, who will be trained in other to perform all reporting and monitoring tasks. Effort to bring training to Project Directors will be done and written documentation to support all follow-up will be kept as part of the corrective actions plan. All effort (defined by the Federal Proposal Office) will begin after issuance of the S.A.R. 2009 Projected for May 2010.</p>	Apr-10	Mildred Reyes (Budget Office)	3070
2009-06	N/A	2008	<p>SPECIAL TEST AND PROVISIONS:</p> <p>Not complying with TSA mandated proficiency training per week/duty cycle for each canine team and lack of related documentation.</p>	97.072	\$ -	In Process		Oct-10	Laura Miranda (Fed. Proposal Office)	3071

CORRECTIVE ACTION PLAN

PUERTO RICO POLICE DEPARTMENT

**Corrective Action Plan
For Fiscal Year ended June 30th 2010**

FINDING NO.	CORRECTIVE ACTION	COMPLETION DATE
10-01	<p><u>ACCOUNTING RECORDS:</u></p> <p>1. PRIFAS accounting system deficiency.</p> <p>We are establishing new procedures to improve filing and document retrieval. The PR Treasury Department is in the process of evaluating new accounting software. As part of the central government efforts, directors of all agencies were invited to few presentations. No results are been presented to PPR. The Finance Division will be doing efforts in coordination with other users of PRIFAS in order to minimize the delay in transactions posting at year end.</p> <p>2. Expenditures of state funds exceed the budgeted amount.</p> <p>This lack of funds between budgeted and actual expenditure was as a result of the reduction of operating budget allocate to the Puerto Rico Police Department. The Budget Office of the Puerto Rico Police Department had reported several communications through insufficient funds in its budget, specifically on the payroll to Office of Management and Budget of the government of Puerto Rico. The final insufficiency funds is ascending to \$18 million approximately, reported by the press SASG-OP-5-331 and the Puerto Rico Police Department are waiting for the deficiency is covered by the previously agreed.</p> <p>3. Filing procedures, communication & coordination</p> <p>The Federal Proposal Office will be coordinating with the Budget Office in order to evaluate and determine the action plan. Efforts began from May 2010 through meetings, evaluations of areas and processes, training and assignment of responsibilities' and specific functions of each component in the process.</p> <p>REFER TO FINDING 10-04</p>	<p>July 2012</p> <p>June 2011</p> <p>June 2011</p>

FINDING NO.	CORRECTIVE ACTION	COMPLETION DATE
10-02	<p>4. Recording of Federal Expenditures</p> <p>The Federal Proposal Office will be coordinating with the Budget Office and the Finance Division in order to evaluate and determine the action plan. Efforts began from May 2010 through meetings, evaluations of areas and processes, training and assignment of responsibilities' and specific functions of each component in the process.</p>	June 2011
	<p><u>DISBURSEMENT TEST:</u></p>	
	<p>A. Expenditures based on an estimated amount rather than actual costs.</p>	
	<p>The Licensing Division has begun to reconcile the estimated payment versus the actual license file accumulated by each employee. Where the payment was greater than the real thing is proceed to notify and make the payment according to current regulations. The License Division shall issue a certification which indicates that the expenditures represent actual spending by the concept of excess accumulated sick leave at December 31, 2009.</p>	February 2011
	<p>B. Expenditure amount charge the incorrect cost objective.</p>	
<p>The Budget Office will coordinate with the Finance Office and the P.R. Treasury Department for the correction of the object of expenditure in the accounting records.</p>	February 2011	
<p>C. Deficiencies in claimed the salary expense</p>		
<p>The deficiency is accepted. The Budget Office will coordinate with the Payroll. Division and Project coordinators the correct classification of each member of the force under the federal program where it exerts its functions. This action will prevent members of the force are classified in a federal program to which they belong and will not seek reimbursement or incorrectly or duplicated in it.</p>	March 2011	
<p>In relation to the questioned costs are not accepted. The Budget Office will proceed to contact "La Oficina de la Fortaleza" funds grantor agency for adjustment or reclassification of payroll cost or established by it. In addition, payroll expenditures were higher than cost claimed under the ARRA Funds.</p>	February 2011	

FINDING NO.	CORRECTIVE ACTION	COMPLETION DATE
10-03	<p><u>PROPERTY & EQUIPMENT:</u></p> <p>Deficiencies in the information required in the property records, annual inventory, disposal of equipment.</p> <p>The unit personnel are in process to evaluate all findings and determine corrective actions for each condition in order to ensure subsidiary (AS400 and Flota 2000) and other unit's updates.</p> <p>A. Effective Property & Equipment System</p> <p>The PR Treasury Department is in process of evaluating new accounting software. As part of the central government efforts, directors of all agencies were invited to few presentations. No results are been presented to PPR. However, the Property Division will be identifying corrective actions to coordinate with other units to receive and register (AS400) the real property location, funding information, acquisition date, etc. Also, The Motor Pool Division (<i>Transportación</i>) will be monitoring vehicles records (Flota 2000) to ensure their condition is updated.</p> <p>B. Physical Inventory</p> <p>The Property Division assigned Mrs. Zulma Sepulveda as Property In-charge immediately. In addition to, four resources will be requested to Human Resources to contribute in the system update and physical inspections required. A schedule of visits to all Agency units will be prepared to ascertain and monitor visits on an annual basis.</p>	<p>June 2011</p> <p>June 2011</p> <p>June 2011</p>

FINDING NO.	CORRECTIVE ACTION	COMPLETION DATE
10-04	<p><u>REPORTING:</u></p> <ol style="list-style-type: none"> 1. Reports submitted after its due date (late). 2. Discrepancies in data reported 3. Unable to examine documents requested for review. <p><u>CFDA 14.850 Public and Indian Housing</u></p> <p>The Federal Proposal Office through the Follow-up & Monitoring Section has established a Monitoring Procedure. Also have been educated and trained each Project Director with the implementation of the reports in the terms established in each Federal proposal. Since May of 2010, Follow-up & Monitoring section have concentrated their efforts in giving a comprehensive and constant monitoring reports required for the Agency is in compliance.</p> <p><u>CFDA 84.397 State Fiscal Stabilization Fund – Government Service, Recovery Act.</u></p> <p>The finding is not accepted. “La Oficina de la Fortaleza”, grantor of funds instructed and distinguished from the requirement of reporting to the Puerto Rico Police Department. According to these, this decision was based on that the Police would receive a single assignment, with a defined purpose and completely spent. In place of the report, the grantor of the funds we requested a certification which was filed on February 24, 2010. Later on August 13, 2010, in the process of monitors, “Fortaleza” requested the preparation of all reports and we were submitted as required. Present are written evidence to the auditor for their knowledge and evaluation</p>	<p>March 2011</p> <p>March 2011</p> <p>March 2011</p>