



COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER

ANNUAL REPORT
FOR FISCAL YEAR
ENDED JUNE 30

2014

TQM A total Quality
Management Organization

ISO 9001: 2000
BUREAU VERITAS
Certification
No. CO236108-A



OFFICIAL SHIELD



The sky-blue color represents loyalty and truth, essential values in public service.

The crossed keys with the gold coins mean fidelity, security and safe-keeping of the people's moneys and properties.

The satellite orbiting above the earth represents the era of information technology systems and telecommunications.

The planet symbolizes a new world, of which we are all a part thereof.

Bordering the shield, we have the eight values that are part of our public service philosophy.

To improve the oversight function and administration of public funds and property is a commitment of all.

Additional information related to the Office of the Comptroller of Puerto Rico is available through the Internet at www.ocpr.gov.pr



M

MISSION

V

ISION

V

ALUES

To oversee the transactions of public funds and property, with independence and objectivity, in order to ascertain that they have been carried out in accordance with the law, and address other matters entrusted. To promote the effective, economical, efficient, and ethical use of government resources for the benefit of our people.

To serve Puerto Rico with a modern and technological Comptrollership that will carry out advanced audits and investigations, to achieve good government through our experience and knowledge support.

COMMITMENT

We offer the best of our capabilities, talent, energy and effort.

EXCELLENCE

We are relentless in our efforts to perform to the best of our capabilities.

INTEGRITY

We demonstrate honesty and reliability in the constant execution of our duties.

JUSTICE

We promote solutions, methods and processes based on maintaining balance and respect of rights. We observe and respect legal equality.

RESPECT

We are pleasant and considerate. We accept diversity and individual qualities.

RESPONSIBILITY

We are thorough in the manner in which we carry out our duties and accept the consequences of our actions and decisions.

SENSIBILITY

We are empathic and treat others without prejudgments.

TRANSPARENCY

We express ourselves with clarity and act with confidence and legality.

ANNUAL REPORT

INTRODUCTION

Official Shield

Mission, Vision and Values

Table of Contents

Letter of Transmittal

Organizational Chart

Principal Officers

i
ii
iii
1
11
13

FINANCIAL SECTION

Independent Auditors' Report

Management's Discussion and Analysis (Unaudited)

Basic Financial Statements

- General Fund Balance Sheet and Statement of Net Position
- Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance and Statement of Activities

Notes to Financial Statements

Required Supplementary Information (Unaudited)

- Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Non-GAAP Budgetary Basis (General Fund)
- Notes to Required Supplementary Information

16
20
25
26
27
40
41

STATISTICAL SECTION

Chart 1 – Operations Budget

Chart 2 – Human Capital

Chart 3 – Time Distribution

Chart 4 – Most Important Findings included in Audit Reports

45
46
47
48

INTERNAL ANTICORRUPTION POLICY

50

REFERENCE GUIDES PUBLISHED

51



LETTER OF TRANSMITTAL

...of your I
...my quietness
...Verses 5, 11, 17
...only in Israel.
...of Israel. Let me leave
...restriction with them
...felt as limits, whether
...without. Then, as expected,
...who do not yet understand
...things. I have seen
...nonessentials, and am responsible for the
...sustained
...at an age when people are
...with the world

LETTER OF TRANSMITTAL



Commonwealth of Puerto Rico OFFICE OF THE COMPTROLLER

Yesmín M. Valdivieso
Comptroller

January 29, 2015

To the Governor of Puerto Rico,
the President of the Senate,
the Speaker of the House of Representatives,
Members of the Legislature,
and the People of Puerto Rico:

In the exercise of our ministerial duty, we are pleased to submit the Annual Report of the Office of the Comptroller of Puerto Rico, hereinafter referred to as the OCPR, for the fiscal year ended June 30, 2014. The OCPR is responsible for the accuracy, completeness, and fairness of the information and disclosures included in this document. All disclosures necessary for a reasonable understanding of the financial activities have been included. To the best of our knowledge, the information presented herein is accurate.

Our independent auditor has issued an unmodified (“clean”) opinion on the OCPR financial statements for the fiscal year ended June 30, 2014. The independent auditors’ report is located at the front of the financial section of this report.

Management’s Discussion and Analysis (MD&A) immediately follows the independent auditors’ report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Following the MD&A are the basic financial statements, including the general fund balance sheet and statement of net position, the statement of general fund revenue, expenditures and changes in fund balance and statement of activities, and the notes to financial statements. The statistical section, completes this report. It provides information about finances, economics, and operational matters related to the OCPR that is generally presented on a comparative basis.

GENERAL INFORMATION

The Comptroller of Puerto Rico has the Constitutional duty to oversee all revenues, accounts, and disbursements of the Commonwealth of Puerto Rico, and to ascertain that all operations involving public funds and public property are performed according to applicable laws and regulations. This authority arises from Section 22, Article III of the Constitution of the Commonwealth of Puerto Rico, and from the Public Law that created the Office of the Comptroller of Puerto Rico, Act No. 9 of July 24, 1952, as amended.

On July 1, 2010, Yesmín M. Valdivieso took office as Comptroller, after being designated by the Governor with the advice and consent of the Legislature, as required by the Constitution. This appointment is for a term of 10 years.

Government agencies are audited through the application of various Government Auditing Standards and other pertinent investigative techniques adopted by the Comptroller. The OCPR has divided all government entities of the Executive, Legislative, and Judicial branches, into 431 units, as of June 30, 2014 for auditing or examination purposes. This figure includes departments, agencies, public corporations, and municipalities.

Results, including findings and recommendations, are presented in the audit and special reports, thus providing for appropriate corrective actions. Violations of law are referred to the appropriate administrative, civil, or criminal law enforcement agencies.

The chief executive of the audited agency is required to inform the OCPR of the actions taken or that will be taken in order to comply with the recommendations resulting from our audit.

STRATEGIC PLAN

The OCPR operates according to the new four year Strategic Plan 2014-2017, approved on December, 2013. To achieve our mission and vision statements, and meet our statutory responsibilities, we developed our Plan which consists of two strategic goals, six strategic objectives, and performance goals and initiatives to support what we want to achieve. The Plan was developed with the participation of 120 executives in three, one day sessions. The mission and values were revised and ideas to develop the goals, objectives and initiatives were considered in defining the execution plans. The vision declaration was changed with a focus of serving Puerto Rico with a modern and technological Comptrollership that will carry out state of the art audits and investigations, to achieve good government through our experience and knowledge support.

Each year we establish the objectives that we propose to accomplish, depending on the resources that are assigned to the OCPR. During fiscal year 2013-2014 we attained significant goals using the managerial philosophy of Total Quality Management (TQM) to optimize the use of funds that have been assigned to conduct our operations.

OVERSIGHT

During fiscal year 2013-2014, we published 157 audit reports, and 4 special reports. The audit reports correspond to the Legislative Branch (3), the Executive Branch (94), the Judicial Branch (1), and municipalities (59). The reports contained 3,466 situations: in the Legislative Branch (53), the Executive Branch (1,521), the Judicial Branch (5), and municipalities (1,885). One special report contained two situations related to Executive Branch and municipalities. In Chart 4 we present the classification of the most important findings. On these reports we included 2,511 recommendations: to the Governor (4), the President of the Senate and the Speaker of the House of Representatives (5), the Department of Justice (18), the Treasury Department (2), the Office of Government Ethics of Puerto Rico (12), the principal officers of the entities (2,300), and others (170).

PREVENTION

1. Professional guidance concerning sound public administration were offered to 4,324 government officials and employees. These included internal auditors from the state government agencies, public corporations and municipalities, and 2,326 members of the public schools councils in compliance with Act No. 77-2006, as amended. It also includes lectures offered to 57 officials on the proper use of public property and funds in compliance with Act No. 78-2011, as amended, and 139 executives appointed by the Governor of Puerto Rico in compliance with Act No. 190-2006.
2. Participated in national and international meetings and conferences related to our investigative and preventive functions, among them: TeamMate User Forum, TeamMate Suite Administrator Workshop for Champions, NASAA IT Conference and Workshop, NASACT Annual Conference, Access Data User

Conference, Annual ACFE Conference, Audit World 2013, Uncovering Fraud with Financial and Ratio Analysis, and the Certified Computer Examiner Bootcamp.

3. Participated in the XXIII General Assembly of the *Organización Latinoamericana y del Caribe de Entidades Fiscalizadoras Superiores* (OLACEFS) in Santiago, Chile.
4. Participated in OLACEFS Committee of Gender and Transparency in the Supreme Audit Institutions (SAI's) and prepared Audit Standards to perform a gender audit that was distributed at the XXIII OLACEFS General Assembly. Participated in meetings to coordinate a Cooperative Gender Audit with Chile and Costa Rica.
5. Participated in the XXI International Congress of Supreme Audit Institutions (INCOSAI) in Beijing, China.
6. Answered 13 surveys and questionnaires from various Supreme Audit Institutions around the world, about topics such as audit programs, use of TeamMate, implementation of hot lines and others.
7. Selected by the Supreme Audit Institution of Mexico (*Auditoría Superior de la Federación*) to participate in their internship program in the performance audit department, commencing in May, 2013.
8. Selected by the World Bank to collaborate with the Chamber of Accounts (*Cámara de Cuentas*) of the Dominican Republic, to strengthen this institution with training in areas of auditing and technology.
9. Celebrated the Fourth Anticorruption Summit with the participation of important executive officials from the Government of Puerto Rico, including the Comptroller of Puerto Rico, the Executive Director of the Puerto Rico Office of Government Ethics, the Secretary of the Department of Justice, the General Inspector of Puerto Rico, a member of the Panel of the Special Independent Prosecutor, and the United States First Assistant Attorney for the District of Puerto Rico. This panel offered lectures about the functions of their institutions and anticorruption initiatives in the Government of Puerto Rico. The Summit received 641 officials and public servants.
10. Formalization of Cooperation Agreements with the following institutions:
 - a. The Office of the State Auditor of Colorado on September 17, 2012.
 - b. Office of Training and Advisory on Labor Matters and Human Resources Administration (OCALARH) on June 19, 2013.
 - c. Interagency agreement between the Office of the Comptroller, Office of Training and Advisory on Labor Matters and Human Resources Administration (OCALARH), Office of the Commissioner of Municipal Affairs (OCAM) and the Institute of Statistics of Puerto Rico for the information compilation of occupied government positions in Puerto Rico on July, 2014.
 - d. Institute of Economy and Finance José M. Berrocal on June 17, 2013.
 - e. University of Puerto Rico, Mayagüez Campus on February 15, 2013.
 - f. University of Puerto Rico, Río Piedras Campus on February 15, 2013.
 - g. Rafael Cordero Molina School on October 3, 2012.
 - h. Department of State on June 13, 2012.
 - i. Memorandum of Understanding between United States Attorney's Office for the District of Puerto Rico, Federal Bureau of Investigation and the Comptroller of Puerto Rico, October 5, 2010.

11. Eighteen circular letters were issued during fiscal year 2013-2014. Among the most important letters are:

- a. Circular Letter OC-14-03 dated July 22, 2013 – *Contratos clasificados como creados en el Registro de Contratos pendientes de remitir a la Oficina.*
- b. Circular Letter OC-14-04 dated October 8, 2013 – *Registro de la Infraestructura Tecnológica del Gobierno a la Oficina del Contralor del Estado Libre Asociado de Puerto Rico.*
- c. Circular Letter OC-14-05 dated October 17, 2013 – *Reglamento Núm. 33, Registro de Contratos, Escrituras y Documentos Relacionados y Envíos de Copias a la Oficina del Contralor del Estado Libre Asociado de Puerto Rico.*
- d. Circular Letter OC-14-06 dated October 30, 2013 – *Recordatorio sobre la certificación que se debe a remitir a la Oficina del Contralor, de acuerdo con la Ley Núm. 103-2006, Ley para implantar la Reforma Fiscal del Gobierno del Estado Libre Asociado de Puerto Rico, según enmendada.*
- e. Circular Letter OC-14-08 dated October 31, 2013 – *Recordatorio – Informe Anual sobre el Estado de Privatizaciones al 30 de junio de 2013.*
- f. Circular Letter OC-14-09 dated November 7, 2013 – *Versión 4.3 del Programa de Registro de Contratos de la Oficina del Contralor.*
- g. Circular Letter OC-14-11 dated November 14, 2013 – *Certificaciones Anuales de la Oficina del Contralor.*
- h. Circular Letter OC-14-12 dated December 20, 2013 – *Aclaración sobre el Envío de Documentos a la División de Registros Públicos de la Oficina del Contralor.*
- i. Circular Letter OC-14-14 dated January 21, 2014 – *Responsabilidad de realizar conciliaciones bancarias como medida de control para identificar errores y detectar el fraude.*
- j. Circular Letter OC-14-15 dated January 27, 2014 – *Fechas límites en el 2014 para remitir a la Oficina del Contralor los informes mensuales del Registro de Puestos e Información Relacionada.*
- k. Circular Letter OC-14-16 dated March 6, 2014 – *Recordatorio sobre el Cumplimiento con la Ley 273-2003, según enmendada.*
- l. Circular Letter OC-14-17 dated May 27, 2014 – *Certificación sobre el registro y el envío de contratos a la Oficina del Contralor durante el año fiscal 2013-14.*
- m. Circular Letter OC-14-18 dated May 29, 2014 – *Certificación sobre la Notificación de Pérdidas o Irregularidades en el Manejo de Fondos o Bienes Públicos a la Oficina del Contralor durante el año fiscal 2013-14.*

HUMAN CAPITAL

1. Office-wide training was offered on techniques for the detection of illegal use of controlled substances, sexual harassment, and other forms of discrimination.
2. All personnel were trained on Government Ethics.
3. Fringe benefits and government contribution to the Medical plan were maintained to retain and attract highly qualified personnel.
4. Engaged in special activities as part of our commitment with the community and to comply with our social responsibility objective. Among them:
 - United Funds Campaign.

- Collection and delivery of primary needed articles to *Iniciativa Comunitaria*, a community based entity that offers various services to the homeless.
 - Participated in activities with the Muscular Dystrophy Association.
 - “PAY IT FORWARD” – Collection of food and groceries and delivery to 40 families of limited economic resources. This activity was accessible in 18 towns around the Island.
 - Bringing goods, school supplies, school materials, uniforms, shoes and food to 172 childrens from 10 homes for abused children with the assistance of the Puerto Rico Department of Family Affairs
5. The OCPR continued providing services as established in the Personnel Support Program empowered by Act No. 9 of July 24, 1952, as amended. The Program’s philosophy and goals are directed to assist our fellow-workers and their families, primarily for problems related to their marital or family situations, work conditions, emotional aspects, and adolescence guidance, among others. The Program is voluntarily guided, and it is considered an innovative initiative to improve the quality of life of our personnel.

TECHNOLOGY

1. Implemented the first version of the OCPR’s Business Intelligence (BI) portal that includes the sources of:
 - a. Registry of Irregularities Related to Public Funds and Property (Act No. 96 of June 1964, as amended).
 - b. Public Registry of Government Contracts (Act No. 18 of October 1975, as amended).
 - c. Government Payroll Expenses and Governmental Employment (Act No. 103 of May 2006, as amended).
 - d. Registry of Complaints.
 - e. Registry of Annual Certifications for the Office of the Comptroller of the Commonwealth of Puerto Rico.
2. Implemented the first version of the portal of OCPR’s *Centro de Información Gubernamental* (CIG).
3. Implemented two versions of the Public Registry of Governmental Contracts (Act No. 18 of October 1975, as amended). Versions: 4.2 and 4.3.
4. Implemented the first version of the Annual Registry of Governmental Employment by Demographics, as part of the Governmental Payroll Expenses and Governmental Employment (Act No. 103 of May 2006, as amended).
5. Implemented a new version of the Registry of Irregularities Related to Public Funds and Property (Act No. 96 of June 1964, as amended). Version 4.1.
6. Implemented the first version of the Electronic Governmental Audits System.
7. Implemented the first version of the Registry of Annual Certifications for the Office of the Comptroller of the Commonwealth of Puerto Rico.
8. Implemented the first version of the Government Payroll Expenses and Governmental Employment, Article 10 (Act No. 103 of May 2006, as amended).
9. Upgraded the TeamMate Audit Management System to the latest version.
10. Upgraded 140 personal computers as part of the continual effort to maintain an up-to-date technology infrastructure for the OCPR’s personnel.

TOTAL QUALITY MANAGEMENT

IMPROVING PROCESSES

Continued with our commitment to analyze existing processes in our organization, improving them, and identifying the pertinent variables so as to monitor behavior, measure progress, and control the processes. During fiscal year 2013-2014, we evaluated and make recommendations to improve the Complaints Process related to the audit function, using the Management Improvement Team's methodology. Also, the OCPR met 75 percent of the quality objectives defined for the year.

ISO (INTERNATIONAL ORGANIZATION FOR STANDARDIZATION)

ISO (word derives from the Greek isos, meaning "equal") is the world's largest developer and publisher of International Standards. ISO is a network of the national standards institutes of 162 countries, on the basis of one member per country, with a Central Secretariat in Geneva, Switzerland, that coordinates the system.

The quality management system standards of the revised ISO 9001:2008 series are based on eight principles (all fundamental to good business practices) that can be used by senior management as a framework to guide their organizations towards improved performance. The eight quality management principles are: Customer Focus, Leadership, Involvement of People, Process Approach, Systems Approach to Management, Continual Improvement, Fact Based Decision Making and Mutually Beneficial Supplier Relationships.

On April 16, 2009, Bureau Veritas, a widely recognized certification body in the world, certified the Quality Management System (QMS) of the OCPR against the 9001:2008 international standard. Also, the scope of the certification extended to include the design and execution of external orientations and training as means of governmental control. On June 30, 2011 and January 25, 2012, Bureau Veritas performed the required follow up audits and certified, without any non-conformances detected, the compliance of our QMS to the standard. On September 20, 2012, Bureau Veritas re-certified the QMS of the OCPR against the 9001:2008 international standards for the next three years, contingent to successful periodic follow up audits. On April 2, 2013, Bureau Veritas performed the first follow up audit and certified, without any non-conformances detected, the compliance of our QMS to the standard. On September 17, 2013 and March 18, 2014, Bureau Veritas performed the required follow up audits and certified, without any non-conformances detected, the compliance of our QMS to the standard.

THE CORRECTIVE ACTION PLAN

The Corrective Action Plan (CAP) is a follow-up mechanism that ensures compliance with the recommendations made by the OCPR in its audit reports. This program was implemented pursuant to the provisions of Act No. 9, of July 24, 1952 which allows the Comptroller, in the exercise of her authority, to adopt practices and procedures generally accepted in current auditing practices. On May 6, 1988, the Governor issued Executive Order 5098D. This Order requires that the chief executive of an audited unit implement the corrective actions in compliance with the Comptroller's recommendations. On November 1, 1990, the Office approved Regulation No. 26 implementing the CAP. On June 13, 1998, the Governor issued Executive Order OE-1998-16, superseding Executive Order 5098D. In addition, on September 11, 2009, the Office approved Regulation No. 26 implementing the CAP, superseding previous regulation.

By June 30, 2014, the OCPR had received 525 and evaluated 494 CAPs to ascertain compliance with the recommendations contained in the audit reports; this represents 94 percent of the evaluations. This figure includes initial CAPs and complementary reports. During fiscal year 2012-13 the OCPR received 533 and evaluated 512 CAPs, the 21 remaining were evaluated during fiscal year 2013-14. The Executive Order and Regulation No. 26 state that government entities should apply the same procedures applicable to the

Comptroller's audit report recommendations contained in the external auditors' management letters. If, upon due consideration, the chief executive determines that the recommendations of the external auditors cannot be adopted, this determination should be appropriately documented and sustained.

The entire operation of the CAP continues to be reviewed, since optimum efficiency wants to be reached in the follow-up process, in order to increase compliance with the recommendations and develop quicker and accurate statistical data. On March 1, 2010, we implemented a process which allows the government entities to send the CAPs and complementary reports information using electronic mail.

PUBLIC REGISTRY OF GOVERNMENT CONTRACTS

According to Act No. 18 of October 30, 1975, as amended, government agencies, including public corporations and municipalities, are required to maintain a registry of all their contracts and deeds, including amendments thereto. Additionally, they have to register and submit a copy of their contracts, deeds, and amendments to the OCPR within 15 consecutive days from the date of execution, or within 30 consecutive days if the contract is executed outside of Puerto Rico. Exceptions to this requirement are set forth in the statute and Regulation 33 of September 15, 2009.

The OCPR uses the Registry for verification purposes as part of its oversight role. On October 15, 2009, we implemented a new version of the Registry which allows the government agencies, among other enhancements, to send digitized copies of the contracts using the Internet. The Registry is accessible to the general public via Internet since 1999 at www.ocpr.gov.pr. Interested parties may request copies of these contracts. A nominal fee is required for each copy. The OCPR received 634 requests and submitted 3,065 copies during fiscal year 2013-14. During fiscal year 2012-13 it received 787 requests and submitted 6,162.

The information system related to the Registry of Government Contracts established in 1990-91 has proven to be an efficient research tool related to contracts executed by government entities. This system has a search feature which allows for the retrieval of information using various references fields or clues such as: contract number, name of the contractor, date of execution, dollar amount and type of contract. Furthermore, the system is capable of furnishing elaborate statistical information regarding the types of contracts most frequently executed by an agency or group of agencies, the number of agencies that are late in submitting contracts, the agencies that submit contracts with erroneous information, and those that belatedly submit corrected information after receiving our observations.

REGISTRY OF LOSS OR IRREGULARITIES OF PUBLIC FUNDS OR PROPERTY

The OCPR instituted a computerized registry system on October 30, 2013 in which government entities register the information related to loss or irregularities with public funds or property. This computerized system was established in compliance with the provisions of Act No. 96 of June 26, 1964, as amended. As per this statute, government entities are also required to report certain losses to the Treasury Department and the Justice Department.

REGISTRY OF PRIVATIZATION

Act No. 136-2003, as amended by Act No. 71-2007, requires all government entities, including public corporations and municipalities, to submit an annual report of all privatizations of functions, areas of administration, or duties of their entities to the Governor, the Legislature and the Office of the Comptroller. Additionally, they have to submit all documents related to contracts, budget, projects, obligations, internal controls, immovable

property and an independent financial and administrative evaluation of said privatizations. The OCPR is required to maintain a registry on all reports received. The Registry is accessible to the general public via Internet at www.ocpr.gov.pr.

GOVERNMENT PAYROLL EXPENSES AND JOB REGISTRY

According to Act No. 103-2006, every agency that receives funds from the government's General Fund has to submit by December 31 of each year, to the secretaries of the House of Representatives and Senate of Puerto Rico, the Office of the Comptroller, and the Office of Management and Budget (OMB), a certification signed and sworn by the Director of Finance and the Agency Executive. This certification must contain, among other things: the number of job posts by category at the beginning and at the end of the fiscal year, including the payroll budget; professional services received and analysis of expenses during the fiscal year; and all its funding sources from the general fund, special assignments, state and federal funds, and other income. In addition, Act No. 103-2006 created a Job Registry, monitored by the Office of the Comptroller, which requires that all agencies and public corporations report, on a monthly basis, all occupied job posts and vacancies. The registry has been designed by the OCPR and is available online through the website with the title Job Registry under *Contraloría Digital*.

RESULTS OF OPERATIONS

BUDGET

The budget assigned to the OCPR for fiscal year 2013-14 was \$43,000,000, which represents the same amount for the previous eight years. The OCPR spent and encumbered \$41,246,190 leaving an unexpended balance of \$1,760,361. This balance is available for non-recurring expenses. Specific information is presented in the Statistical Section of this Report. (Chart 1)

HUMAN CAPITAL

As of June 30, 2014, the OCPR had 602 full time occupied positions or 86 percent out of 701 authorized positions; 390 were auditors and 212 were support personnel. Support personnel consist of legal counsels, administrative staff, and other professionals. (Chart 2) During 2013-2014, 8 auditors and 7 support personnel resigned or retired, while 2 auditors and 9 support personnel were hired. A grand total of 933,281.70 hours were dedicated to audits, service and administrative support, information and communication systems, trainings, and prevention and anti-corruption. (Chart 3)

TRAINING

The OCPR has established an internal regulation that requires support personnel to take a minimum of 15 hours of continued education annually. Auditors are required a minimum of 80 hours every 2 years; 24 have to be in areas related to the profession. Auditors of the Information Technology Audit Division are required 20 hours in computer information systems.

During 2013-14, 41,568.25 hours were dedicated to training and education. Seminars and conferences in auditing, management, report writing, grammar skills, leadership, supervision, and recent developments in information technology have been a priority.

FINANCIAL INFORMATION

INTERNAL CONTROLS

The OCPR is responsible for establishing and maintaining an internal control structure designed to ensure that its assets are protected from loss, theft, or misuse, and that adequate accounting data is compiled to allow for the presentation of financial statements in accordance with generally accepted accounting principles. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that, (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of cost and benefits requires estimates and sound management judgment by administrators.

The OCPR has regulations to strengthen the independence, integrity, and trust on the Office's internal auditing activity and the transparency in its fiscal processes and transactions.

BUDGETARY CONTROLS

The OCPR maintains an encumbrance accounting system to accomplish its budgetary controls. As demonstrated by the financial statements and schedules included in the Financial Section of this report, management of the OCPR continue to meet its responsibility for sound financial administration, following the norms of austerity and modesty.

INDEPENDENT AUDIT

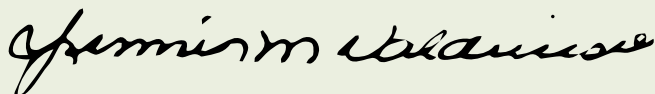
KPMG, LLP an independent certified public accounting firm, performed the audit of the financial statements of the OCPR for fiscal year ended June 30, 2014. The Independent Auditors' Report is included in the Financial Section. The accounting firm performed the audit on time as expected. The OCPR received the audited financial statements on October 20, 2014.

FINANCIAL REPORTING

The OCPR complies with all financial reporting requirements.

Improving the oversight function and administration of public funds and property is a commitment of all.

Respectfully submitted,



Yesmín M. Valdivieso

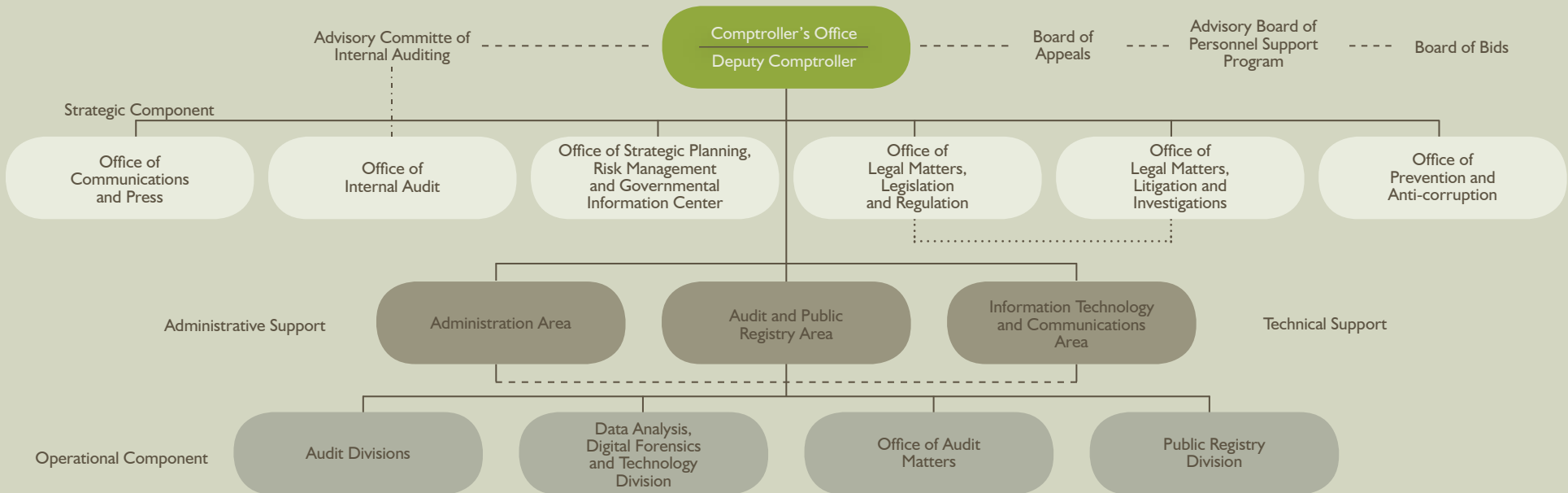
The cover features a large, dark brown, semi-circular shape at the top, which serves as a background for the title. Above this shape is a green curved border. Below the semi-circle is a black and white photograph of a low-angle view of several tall skyscrapers reaching towards a cloudy sky. The title 'ORGANIZATIONAL CHART' is written in a white, sans-serif font, with the 'O' being a large, stylized graphic element.

ORGANIZATIONAL CHART



COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER

ORGANIZATIONAL CHART





PRINCIPAL OFFICERS



Principal Officers

OFFICE OF THE COMPTROLLER

Hon. Yesmín M. Valdivieso
Comptroller

Natanael Arroyo Cruz
Deputy Comptroller

Miriam T. Contreras Amador
Assistant Comptroller
Administration Area

Edgardo Castro Rivera
Executive Director
Office of Prevention and
Anti-corruption

Jamiel Miranda Matos
Executive Director
Office of Strategic Planning, Risk
Management and Governmental
Information Center

Lilliam M. Feliciano Solero
Executive Director
Office of Legal Matters, Legislation
and Regulation

Nilsa T. Añeses Loperena
Executive Director
Office of Legal Matters, Litigation
and Investigations

Myriam J. Flores Santiago
Director of Internal Audit

Lisandra Rivera Rivera
Director of Communications
and Press

AUDIT AND PUBLIC REGISTRY AREA

Yamira Pérez Ortiz
Executive Director
Office of Audit Matters

Héctor A. Rivas Ortiz
Audit Director
Departments and Agencies Division

Julio J. Dávila Bravo
Audit Director
Public Corporations Division

Arnaldo L. Negrón Otero
Audit Director
Municipalities Division

Lourdes Díaz Valcárcel
Audit Director
Information Technology Division

Nydia I. Hernández Matos
Audit Director
Financial Matters and Retirement
Systems Division

Iván D. Denizac González
Director
Data Analysis, Digital Forensics and
Technology Development Division

Alberto J. Castro Laboy
Director of Public Registry
Division

ADMINISTRATION AREA

Oscar A. Luna Díaz
Director
Finance and Budget Division

Iseut G. Vélez Rivera
Director
Human Capital Division

Elsa S. Páez Guerrero
Director
General Services Division

Mara E. Reyes Alfonso
Director
Professional Development Center
and Special Activities

Carlos A. Pérez Rivera
Administrator
Public Documents Administration
Program

INFORMATION TECHNOLOGY AND COMMUNICATIONS AREA

Rafael G. Pérez Tejera
Director of Information Systems

The image features a dark brown, semi-circular graphic element on a light green background. Inside this shape, the words "FINANCIAL SECTION" are written in a white, serif font. The "F" is significantly larger and more ornate than the other letters. Below the main graphic, a blurred image of a financial chart with a magnifying glass is visible.

*F*INANCIAL SECTION



COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)

Financial Statements and Required Supplementary Information

June 30, 2014

(With Independent Auditors' Report Thereon)

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)

Table of Contents

| | Page |
|--|-------------|
| Independent Auditors' Report | 1–2 |
| Management's Discussion and Analysis (Unaudited) | 3–7 |
| Basic Financial Statements: | |
| General Fund Balance Sheet and Statement of Net Position | 8 |
| Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance and Statement of Activities | 9 |
| Notes to Financial Statements | 10–21 |
| Required Supplementary Information (Unaudited) | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual Non-GAAP Budgetary Basis (General Fund) | 22 |
| Notes to Required Supplementary Information | 23 |



KPMG LLP
American International Plaza
Suite 1100
250 Muñoz Rivera Avenue
San Juan, PR 00918-1819

Independent Auditors' Report

The Comptroller of Puerto Rico
Office of the Comptroller:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and General Fund of the Office of the Comptroller of the Commonwealth of Puerto Rico (the Office), an agency of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Opinions

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities and General Fund of the Office of the Comptroller of the Commonwealth of Puerto Rico as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1, the financial statements of the Office are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and general fund of the Commonwealth of Puerto Rico that is attributable to the transactions of the Office. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2014, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 7 and budgetary comparison information on pages 22 through 23 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 obtained 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2014 on our consideration of the Office'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control over financial reporting and compliance.

KPMG LLP

San Juan, Puerto Rico
October 20, 2014

Stamp No. E142509 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis (Unaudited)
June 30, 2014

The Office of the Comptroller (the Office), an agency assigned to the Legislative Branch of the Commonwealth of Puerto Rico (the Commonwealth), offers to the readers of the financial statements this narrative overview and analysis of the financial activities of the Office for the fiscal year ended June 30, 2014.

Financial Highlights

- Total liabilities of the Office's governmental activities at the close of the fiscal year ended June 30, 2014 amounted to approximately \$12,300,000 comprising primarily the accrual for vacations and sick leave in the total amount of approximately \$10,600,000. The liabilities exceeded its assets by approximately \$4,100,000 primarily due to the aforesaid accrual for vacations and sick leave. The Office has the resources to meet its ongoing obligations, and the liabilities for accrued vacations and sick leave will be met with revenues from legislative appropriations in future years as these liabilities become due.
- The Office's total assets increased by approximately \$1,300,000.
- The final budget of the Office for fiscal year 2013-2014 was \$43,000,000.

The Office's revenues and other financing sources exceeded its budgetary basis expenditures by approximately \$1,800,000 for the fiscal year 2013-2014.

Overview of the Basic Financial Statements

This Management's Discussion and Analysis section is intended to serve as an introduction to the Office's basic financial statements. The Office's basic financial statements comprise three components: 1) government-wide financial statements on all of the activities of the Office, 2) fund financial statements, and 3) notes to financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Office's financial position, in a manner similar to a private-sector business.

The statement of net position presents information of all of the Office's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Office is improving or deteriorating as a result of the year's operations.

The statement of activities presents information showing how the Office's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Office that are supported by appropriations from the general fund of the Commonwealth. The Office has the constitutional duty to ascertain that all revenues, accounts, and disbursements of the Commonwealth and all operations involving public funds and public property were performed as stated in Article III of the Constitution of the Commonwealth, and Act No. 9 of July 24, 1952, as amended.

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis (Unaudited)
June 30, 2014

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Office, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The General Fund of the Office belongs to the category of governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both, the General Fund balance sheet and the statement of General Fund revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Office maintains one individual governmental fund and adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 10 to 21 of this report.

Financial Analysis of the Governmental Activities

As noted earlier, the Office uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
 (An Agency of the Commonwealth of Puerto Rico)
 Management's Discussion and Analysis (Unaudited)

June 30, 2014

Net Position

The statement of net position serves as an indicator of the Office's financial position at the end of the fiscal year. The Office's net position increased by approximately \$1,700,000 over the course of fiscal year 2014. The Office's net position includes investment in capital assets for approximately \$2,400,000 and a deficit of approximately \$6,500,000. The following is condensed summary information for fiscal years ended June 30, 2014 and 2013:

| Condensed summary information of net position | | | |
|--|-----------------------|--------------------|------------------|
| | 2014 | 2013 | Change |
| Current assets | \$ 5,813,160 | 4,818,059 | 995,101 |
| Capital assets, net | 2,386,190 | 2,093,113 | 293,077 |
| Total assets | <u>\$ 8,199,350</u> | <u>6,911,172</u> | <u>1,288,178</u> |
| Current liabilities | \$ 1,329,394 | 1,629,173 | (299,779) |
| Noncurrent liabilities | 10,957,955 | 11,089,702 | (131,747) |
| Total liabilities | <u>\$ 12,287,349</u> | <u>12,718,875</u> | <u>(431,526)</u> |
| Net position: | | | |
| Net investment in capital assets | \$ 2,386,190 | 2,093,113 | 293,077 |
| Unrestricted – deficit | (6,474,189) | (7,900,816) | 1,426,627 |
| Total net position | <u>\$ (4,087,999)</u> | <u>(5,807,703)</u> | <u>1,719,704</u> |

Total assets of the Office's at June 30, 2014 increased by approximately \$1,300,000 when compared to the total assets as of June 30, 2013 primarily attributable to the continued efforts to protect the fiscal condition that included a reduction in number of employees and payroll expenses and other fiscal controls.

Total liabilities at June 30, 2014 decreased by approximately \$432,000 when compared to total liabilities at June 30, 2013. This decrease is mainly because of a reduction in employees who elected to go into retirement effective June 30, 2014 when compared with June 30, 2013.

Capital Assets

The capital assets of the Office are those assets that are used in the performance of its functions. The net investment in capital assets for the fiscal year ended June 30, 2014 amounts to approximately \$2,400,000. The Office's capital assets, net increased during 2014 by approximately \$293,000.

Capital assets, net increased primarily due to the net effect of the following:

- The acquisition of software, including capitalization of internally developed software, in the amount of approximately \$550,000,
- Current year's depreciation and amortization of approximately \$500,000,
- The acquisition of equipment, vehicle, and furniture at a cost of approximately \$280,000, and

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis (Unaudited)
June 30, 2014

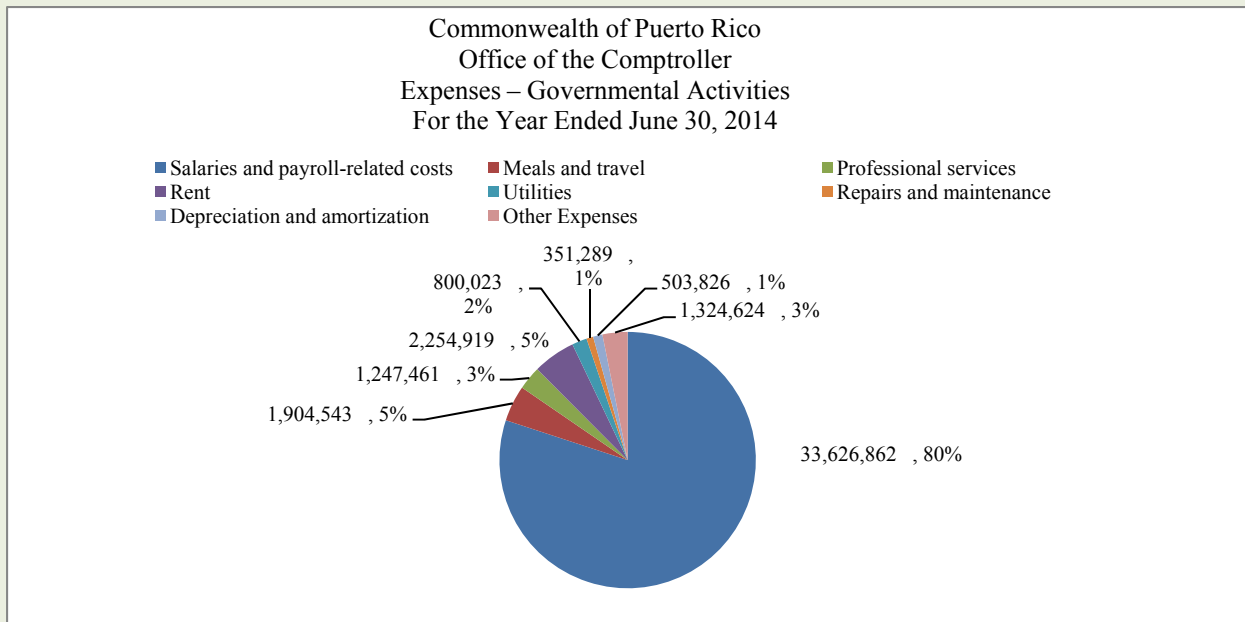
- The retirement of equipment, electronic equipment, furniture, and software in the net amount of approximately \$33,000.

Changes in Net Position

The following condensed summary of activities reflects how the Office's net position changed during the fiscal year ended June 30, 2014:

| | <u>2014</u> | <u>2013</u> | <u>Change</u> |
|------------------------|---------------------|---------------------|------------------|
| Revenues | \$ 6,551 | 4,993 | 1,558 |
| Transfers | 43,726,700 | 43,499,700 | 227,000 |
| Expenses | <u>(42,013,547)</u> | <u>(42,824,357)</u> | 810,810 |
| Change in net position | <u>\$ 1,719,704</u> | <u>680,336</u> | <u>1,039,368</u> |

The following chart presents the expenses incurred by the Office during the fiscal year ended June 30, 2014:



The Office's major expense is related to salaries, benefits, and payroll taxes, which represent 80% of total expenses incurred during fiscal year ended June 30, 2014. The increase in transfers of approximately \$227,000 represents an increase in the annual employer additional contribution of 1% paid by the Office of Management and Budget of the Commonwealth to the ERS.

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis (Unaudited)
June 30, 2014

General Fund Budgetary Highlights

The 2013-2014 General Fund Budget was \$43,000,000 and actual expenses in the budgetary basis were \$41,246,190. Total expenditures represented 95.9% of total budget availability for the fiscal year. The Office's expenditure rate decreased by approximately 2% when compared to prior year performance (97.8%).

The following table summarizes the operational results under the non-GAAP budgetary basis of accounting for the fiscal year ended June 30, 2014:

| | <u>Actual</u> |
|-------------------------------------|----------------------|
| Revenue and other financing sources | \$ 43,006,551 |
| Expenditures | <u>41,246,190</u> |
| Unexpended balance | \$ <u>1,760,361</u> |
| Expenditure rate | 95.9% |

The operational results present a saving on the assigned budget amounting to approximately \$1,800,000 for year ended 2014.

Economic Factors and Next Year's Budget

The Commonwealth has been facing a number of fiscal and economic challenges in recent years due, among other factors, to continued budget deficits, a prolonged economic recession, high unemployment, population decline, high levels of debt and pension obligations, and a downgrading by the major rating agencies of the general obligation bonds of the Commonwealth to noninvestment grade rating. These factors could have had an adverse effect in the Commonwealth ability to achieve a balanced budget and improved its financial condition.

On June 17, 2014, the Governor signed into law Act No. 66, (also known as Fiscal Operation and Sustainability Act), which provides the legal base to address certain cost escalators to achieve a balanced budget. The Commonwealth, in order to reduce its deficit, made a reduction on its general fund budget for 2015 fiscal year in the amount of \$205,000,000. As a result of this reduction, the Office approved budget for the fiscal year 2015 is \$40,315,000, a reduction of \$2,685,000 when compared to 2014 fiscal year.

The Office adopted cost reduction measures that resulted in a decrease in certain employee benefits accrued in the government-wide financial statements.

Requests for Information

This financial report is designed to provide a general overview of the Office's finances for all those with an interest in the government's finances. Question concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance and Budget Division, The Office of the Comptroller of the Commonwealth of Puerto Rico, PO Box 366069, San Juan, Puerto Rico 00936-6069.

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)
General Fund Balance Sheet and Statement of Net Position
June 30, 2014

| | <u>General Fund Balance Sheet</u> | <u>Adjustments</u> | <u>Statement of Net Position</u> |
|--|---------------------------------------|-----------------------|--------------------------------------|
| Assets: | | | |
| Cash in governmental bank | \$ 5,746,264 | — | 5,746,264 |
| Cash under the custody of the Secretary of Treasury of the Commonwealth of Puerto Rico | 7,257 | — | 7,257 |
| Accounts receivable – employees and other | 59,639 | — | 59,639 |
| Capital assets: | | | |
| Nondepreciable | — | 227,641 | 227,641 |
| Depreciable, net | — | 2,158,549 | 2,158,549 |
| Total assets | <u>5,813,160</u> | <u>2,386,190</u> | <u>8,199,350</u> |
| Liabilities: | | | |
| Accounts payable and accrued liabilities | 1,329,394 | — | 1,329,394 |
| Other accrued long-term liabilities, due within one year | — | 5,358,883 | 5,358,883 |
| Other accrued long-term liabilities, due after one year | — | 5,599,072 | 5,599,072 |
| Total liabilities | <u>1,329,394</u> | <u>10,957,955</u> | <u>12,287,349</u> |
| Fund balance/net position: | | | |
| Fund balance: | | | |
| Committed | 7,257 | (7,257) | — |
| Assigned | 53,883 | (53,883) | — |
| Unassigned | 4,422,626 | (4,422,626) | — |
| Total fund balance | <u>4,483,766</u> | <u>(4,483,766)</u> | <u>—</u> |
| Total liabilities and fund balance | <u>\$ 5,813,160</u> | | |
| Net position: | | | |
| Net investment in capital assets | | 2,386,190 | 2,386,190 |
| Unrestricted | | (6,474,189) | (6,474,189) |
| Total net position | | <u>\$ (4,087,999)</u> | <u>(4,087,999)</u> |

See accompanying notes to financial statements.

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)

Statement of General Fund Revenues,
Expenditures, and Changes in Fund Balance and Statement of Activities

June 30, 2014

| | General Fund Revenues, Expenditures, and Changes in Fund Balance | Adjustments | Statement of Activities |
|--|---|--------------------|------------------------------------|
| Expenditures/expenses: | | | |
| General government: | | | |
| Salaries and payroll-related costs | \$ 33,758,609 | (131,747) | 33,626,862 |
| Meals and travel | 1,904,543 | — | 1,904,543 |
| Professional services | 1,247,461 | — | 1,247,461 |
| Insurance | 38,413 | — | 38,413 |
| Rent | 2,254,919 | — | 2,254,919 |
| Utilities | 800,023 | — | 800,023 |
| Noncapitalizable equipment | 37,214 | — | 37,214 |
| Materials and supplies | 101,166 | — | 101,166 |
| Repairs and maintenance | 351,289 | — | 351,289 |
| Depreciation and amortization | — | 503,826 | 503,826 |
| Loss on disposition of assets | — | 33,230 | 33,230 |
| Trainings and continuing professional education | 241,404 | — | 241,404 |
| Subscriptions and memberships | 116,964 | — | 116,964 |
| Outsource services: | | | |
| Security | 235,492 | — | 235,492 |
| Maintenance | 118,378 | — | 118,378 |
| Other | 368,570 | — | 368,570 |
| Printing services | 20,457 | — | 20,457 |
| Postage | 4,297 | — | 4,297 |
| Miscellaneous | 9,039 | — | 9,039 |
| Capital outlays | 830,133 | (830,133) | — |
| Total expenditures/expenses | <u>42,438,371</u> | <u>(424,824)</u> | <u>42,013,547</u> |
| General revenue – Interest income | 6,551 | — | 6,551 |
| Other financing sources – Transfers: | | | |
| Commonwealth of Puerto Rico appropriations | 43,000,000 | — | 43,000,000 |
| Other Commonwealth of Puerto Rico appropriations under Joint Resolution No. 17, of June 30, 2013 | 726,700 | — | 726,700 |
| Total general revenue and transfers | <u>43,733,251</u> | <u>—</u> | <u>43,733,251</u> |
| Excess of revenue and transfers over expenditures | 1,294,880 | (1,294,880) | — |
| Change in net position | — | 1,719,704 | 1,719,704 |
| Fund balance/net position: | | | |
| At beginning of year | 3,188,886 | (8,996,589) | (5,807,703) |
| At end of year | <u>\$ 4,483,766</u> | <u>(8,571,765)</u> | <u>(4,087,999)</u> |

See accompanying notes to financial statements.

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)

Notes to Financial Statements

June 30, 2014

(1) Organization and Basis of Presentation

(a) *Organization*

The Commonwealth of Puerto Rico (the Commonwealth) was constituted on July 25, 1952, under the provisions of its Constitution as approved by the People of Puerto Rico and the Congress of the United States of America. The Commonwealth's Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government. The Commonwealth assumes responsibility for public safety, public health, public housing, welfare, education, and economic development.

The position of Comptroller of Puerto Rico was created by virtue of Article III, Section 22 of the Constitution of the Commonwealth. The Comptroller of Puerto Rico is appointed by the Governor with the consent of the Legislature of the Commonwealth (the Legislature) for a term of 10 years and until his/her successor has been appointed and qualified.

The function of the Comptroller of Puerto Rico is to audit all the revenues, accounts, and expenditures of the Commonwealth, its agencies and instrumentalities, and its municipalities, in order to determine if they have been made in conformity with the law and to submit the corresponding audit reports. Also, it submits annual reports and all other special reports that are requested by the Legislature or the Governor.

The Office of the Comptroller (the Office) was created by Law 9 of July 24, 1952, as amended. The Office is an agency of the Commonwealth, assigned to the Legislative Branch of the Commonwealth. The administration of the Office is autonomous and is under the direction of the Comptroller of Puerto Rico.

Effective July 1, 2012, the Office became fiscally autonomous pursuant to the provisions of Act 58 of March 19, 2012. As a result of this Act, the noncommitted cash of the Office that was previously under the custody of the Secretary of Treasury of the Commonwealth was transferred to the Office. Substantially, all expenditures of the Office are disbursed from the Office's bank accounts since that date.

The accompanying basic financial statements of the Office have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

(b) *The Financial Reporting Entity*

The Office is an agency of the Commonwealth. Its financial data is part of the general fund of the Commonwealth.

The accompanying financial statements are issued solely for the information and use of the Comptroller, the Governor, and the Legislature of the Commonwealth and the People of the Commonwealth.

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)

Notes to Financial Statements

June 30, 2014

(c) Basis of Presentation

The financial activities of the Office, which consist only of governmental activities, are reported under the general government function in the Commonwealth's basic financial statements. For its reporting purposes, the Office has combined the General Fund and government-wide financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. A brief description of the Offices' government-wide and fund financial statements is as follows:

Government-wide Financial Statements: The government-wide statement of net position and statement of activities report the overall financial activity of the Office. The financial activities of the Office consist only of governmental activities, which are primarily supported by Commonwealth appropriations (transfers within the general fund of the Commonwealth).

The statement of activities demonstrates the degree to which the direct expenses of a given function (i.e., general government) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The Office has no program revenues. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Office's General Fund. The General Fund accounts for all financial resources of the Office.

The following is a reconciliation between the General Fund balance sheet and the statement of net position at June 30, 2014:

| | |
|---|------------------------------|
| Fund balance | \$ 4,483,766 |
| Add capital assets, net of accumulated depreciation, as they are not financial resources and, therefore, are not reported in the General Fund | 2,386,190 |
| Less accrued compensated absences and Christmas bonus, as they are not due and payable in the current period and, therefore, are not reported in the General Fund | <u>(10,957,955)</u> |
| Net position | \$ <u><u>(4,087,999)</u></u> |

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)

Notes to Financial Statements

June 30, 2014

The following is a reconciliation between the excess of revenue and transfers over expenditures in the statement of General Fund revenues, expenditures, and changes in fund balance, and the change in net position in the statement of activities for the fiscal year ended June 30, 2014:

| | |
|--|---------------------|
| Excess of revenue and transfers over expenditures | \$ 1,294,880 |
| Less current year change in compensated absences that are recorded as a long-term liability in the government-wide financial statements | (160,765) |
| Add current year change in accrued Christmas bonus that is recorded as a long-term liability in the government-wide financial statements | 292,512 |
| Less current year depreciation and amortization, as the cost of assets is allocated over their useful lives in the statement of activities | (503,826) |
| Less loss on disposal of assets that were not capitalized in the General Fund | (33,230) |
| Add capital outlays reported as expenditures in the General Fund that are shown as capital asset additions in the government-wide financial statements | <u>830,133</u> |
| Change in net position | <u>\$ 1,719,704</u> |

(d) Basis of Accounting

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 at the time liabilities are incurred, regardless of when the related cash flow takes place.

The General Fund, as a governmental fund, is 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. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

(2) Summary of Significant Accounting Policies

(a) Cash

Certain funds of the Office are under the custody of the Secretary of the Treasury of the Commonwealth pursuant to Act. No. 230 of July 23, 1974, as amended, known as "Commonwealth of Puerto Rico Accounting Law." The Treasury Department of the Commonwealth follows the practice of pooling cash and cash equivalents under the custody and control of the Secretary of the Treasury (the Cash Pool.) Under Act No. 58, the Office is permitted to maintain and manage its cash accounts separate from the Cash Pool.

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)

Notes to Financial Statements

June 30, 2014

(b) Capital Assets

Capital assets are reported in the government-wide financial statements of the Office. The Office defines capital assets as assets, which have an initial, individual cost of \$500 or more at the date of acquisition and have a useful life in excess of two years. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets are depreciated or amortized using the straight-line method over the assets estimated useful lives. No amortization is recorded for computer software being developed. The estimated useful lives of capital assets being depreciated are as follows:

| | <u>Years</u> |
|-------------------------------|--------------|
| Electronic equipment | 5 |
| Other equipment | 5 |
| Furniture | 10 |
| Purchased computer software | 5 |
| Internally developed software | 3–10 |
| Vehicles | 5–10 |

(c) Compensated Absences

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated vacation and sick leave balances for Office employees. A liability for these amounts is reported in the General Fund only if they have matured, for example, as a result of employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary-related costs (e.g., social security and Medicare tax).

The employees of the Office are granted thirty (30) days of vacation and eighteen (18) days of sick leave annually. Vacation and sick leave may be accumulated in excess of the maximum permitted of sixty (60) and ninety (90) days, respectively, until December 31, 2014. As of January 1, 2015, the sick leave may not be accumulated in excess of the maximum permitted of ninety (90) days. Any employee with a sick balance in excess of the maximum of ninety (90) days will lose that excess beginning January 1, 2015. When an employee resigns, the Office accumulated vacation is liquidated. The resignation as a government employee, before consuming the accrued sick leave days, ends all rights to compensation except for those employees with ten (10) or more years of service, which have the right to such compensation up to the maximum allowed.

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)

Notes to Financial Statements

June 30, 2014

(d) Fund Balance

The fund balance for the General Fund is reported in classifications based on the extent to which the Office is bound to honor constraints on the specific purposes for which amounts in the General Fund can be spent.

- Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. There was no nonspendable fund balance as of June 30, 2014.
- Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation. There was no restricted fund balance as of June 30, 2014.
- The Office's highest decision-making level of authority rests with the Commonwealth's Legislature. Fund balance is reported as committed when the Legislature passes a law that places specified constraints on how resources may be used. The law can modify or rescind a commitment of resources through passage of a new law.
- Resources that are constrained by the Office's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by the Comptroller.
- Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the Office for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the Office's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

(e) Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements. Net position is displayed in the following components:

- (i) Net investment in capital assets – This consists of capital assets, less accumulated depreciation and amortization.
- (ii) Restricted – This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Office's policy to use restricted resources first, then unrestricted resources when they are needed. There was no restricted net position at June 30, 2014.
- (iii) Unrestricted – This consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)

Notes to Financial Statements

June 30, 2014

(f) Commonwealth Appropriations

The Office operations are financed through appropriations from the Commonwealth. These appropriations are recognized as transfers in the General Fund when received.

(g) Risk Financing

The Commonwealth purchases commercial insurance covering casualty, theft, tort, claims, and other losses for the Office. The Office reimburses the Commonwealth for premium payments made on its behalf. The current Office insurance policies have not been canceled or terminated. For worker's compensation the State Insurance Fund Corporation, a component unit of the Commonwealth, provides the worker's compensation to the Office employees.

(h) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

(i) Adoption of New Accounting Pronouncements

During the fiscal year ended June 30, 2014, the Office adopted the following new accounting standards issued by the GASB:

- (i) GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities, or vice versa. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The implementation of GASB Statement No. 65 had no impact in the accompanying financial statements.
- (ii) GASB Statement No. 66, *Technical Corrections 2012*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre – November 30, 1989 FASB and AICPA Pronouncements*. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3)

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)

Notes to Financial Statements

June 30, 2014

servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The implementation of GASB Statement No. 66 had no impact in the accompanying financial statements.

- (iii) GASB Statement No. 67, *Financial Reporting for Pension Plans* – an amendment of GASB Statement No. 25. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The implementation of GASB Statement No. 67 had no impact in the accompanying financial statements.
- (iv) GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local government that extend and receive nonexchange financial guarantees. This Statement requires a governmental entity guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of GASB Statement No. 70 had no impact in the accompanying financial statements.

(j) Future Adoption of Accounting Pronouncements

The GASB has issued the following accounting standards that have effective dates after June 30, 2014:

- (i) GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014.
- (ii) GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement also

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)

Notes to Financial Statements

June 30, 2014

provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

- (iii) GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined-benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014.

(3) Deposits

The Office follows the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, an Amendment to GASB Statement No. 3. Accordingly, the following is essential information about the deposits of the Office at June 30, 2014:

Custodial credit risk is the risk that in the event of a bank failure, the Office's deposits may not be recovered. The Office's cash in governmental banks and the cash under the custody of the Secretary of Treasury are deposited in the Government Development Bank for Puerto Rico, a component unit of the Commonwealth. These deposits are uninsured and uncollateralized.

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)

Notes to Financial Statements

June 30, 2014

(4) Capital Assets

Capital assets activity for the year ended June 30, 2014 was as follows:

| | Beginning balance | Increases | Decreases | Ending balance |
|--|------------------------------|------------------|------------------|---------------------------|
| Capital assets, nondepreciable: | | | | |
| Computer software being developed | \$ 581,902 | 468,173 | (822,434) | 227,641 |
| Capital assets depreciable: | | | | |
| Equipment | 995,717 | 16,508 | (13,798) | 998,427 |
| Electronic equipment | 2,676,443 | 226,381 | (61,939) | 2,840,885 |
| Furniture | 1,106,640 | 7,944 | (6,562) | 1,108,022 |
| Computer software | 931,305 | 878,218 | (4,148) | 1,805,375 |
| Vehicles | 338,210 | 27,977 | — | 366,187 |
| Total capital asset, depreciable | 6,048,315 | 1,157,028 | (86,447) | 7,118,896 |
| Less accumulated depreciation and amortization for: | | | | |
| Equipment | 728,164 | 67,250 | (13,453) | 781,961 |
| Electronic equipment | 1,970,257 | 284,333 | (59,719) | 2,194,871 |
| Furniture | 908,219 | 54,991 | (6,562) | 956,648 |
| Computer software | 638,053 | 77,610 | (849) | 714,814 |
| Vehicles | 292,411 | 19,642 | — | 312,053 |
| Total accumulated depreciation and amortization | 4,537,104 | 503,826 | (80,583) | 4,960,347 |
| Total capital asset depreciable | 1,511,211 | 653,202 | (5,864) | 2,158,549 |
| Capital assets, net | \$ 2,093,113 | 1,121,375 | (828,298) | 2,386,190 |

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)

Notes to Financial Statements

June 30, 2014

(5) Long-Term liabilities

Long-term liabilities activity for the year ended June 30, 2014 was as follows:

| | <u>Beginning balance June 30, 2013</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending balance June 30, 2014</u> | <u>Due within one year</u> | <u>Long-term portion</u> |
|------------------------------|--|------------------|--------------------|---|--------------------------------|------------------------------|
| Accrued compensated absences | \$ 10,403,522 | 4,927,730 | (4,766,965) | 10,564,287 | 4,965,215 | 5,599,072 |
| Accrued Christmas bonus | 686,180 | 393,668 | (686,180) | 393,668 | 393,668 | — |
| | <u>\$ 11,089,702</u> | <u>5,321,398</u> | <u>(5,453,145)</u> | <u>10,957,955</u> | <u>5,358,883</u> | <u>5,599,072</u> |

(6) Lease Commitments

The Office rents its facilities through operating lease agreements in which the latest expires in 2016. Rent expense under such lease agreements for the year ended June 30, 2014 amounted to approximately \$2,200,000.

(7) Contingencies

The Office is defendant in a lawsuit pending in court. Management of the Office believes that the ultimate disposition of this matter will not have a material adverse effect on the Office's financial position or results of operations. The Department of Justice of the Commonwealth may represent the Office in any litigation. As established by law, any unfavorable outcome against the Office will be settled ultimately with appropriations of the Commonwealth other than the annual appropriations received by the Office.

(8) Retirement System

The Office participates in the Employee's Retirement System of the Government of Puerto Rico and its instrumentalities (ERS), a cost sharing multiple-employer retirement plan, which covers only eligible full-time employees. The ERS was created by Act No. 447 of May 15, 1951 and provides retirement, death, and disability benefits and annuities to Commonwealth employees not covered by their own systems.

Commonwealth legislation requires employees to contribute 7% for the first \$550 of their monthly gross salary and 10% for the excess over \$550 of monthly gross salary. The Office is required by the same statute to contribute 12.275% of the participants' gross salary. Total employer contributions during 2014, 2013, and 2012 amounted to approximately \$3,000,000, \$2,800,000, and \$2,600,000, respectively, of which approximately \$727,000, \$500,000, and \$249,000, respectively, were paid by the Office of Management and Budget of the Commonwealth on behalf of the Office as a result of the Joint Resolution No. 17, dated June 30, 2013. Total contributions represent 100% of the annual required contribution determined on a pay-as-you-go basis.

Pursuant to Act No. 116 of July 6, 2011, the Office is subject to annual increases in the employer contribution of 1% of the regular retribution received by the participants until the year ending on June 30,

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)

Notes to Financial Statements

June 30, 2014

2016, and of 1.25% of the regular retribution received by the participant beginning on July 1, 2016 and ending in June 30, 2021

On September 24, 1999, an amendment to Act No. 447 of May 15, 1991, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, had the option to stay in the ERS or transfer to the new program. Employees hired on or after January 1, 2000 are only allowed to become members of the System 2000.

System 2000 reduced the retirement age from 65 to 60 for those employees who joined the ERS on or after April 1, 1990. System 2000 is a hybrid defined-contribution plan, also known as a cash balance plan. Under this plan, there is a pool of pension assets, which is invested by the ERS together with those of the current defined-benefit plan. The Commonwealth will not guarantee benefits at retirement age. The annuity is based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of the employees' salary up to a maximum of 10%) will be invested in an account, which either; (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 80% of the return of the System investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined-contribution plans showing their accrued balances. Disability pensions are not granted under System 2000. The employer's contribution (12.275% of the employee's salary) is used to fund the current plan.

For the year ended June 30, 2014, total covered payroll was approximately \$24,000,000. Covered payroll refers to all compensation paid by the Office to employees covered by the ERS on which contributions to the pension are based.

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

- For active participants of the contributory defined-benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 will be frozen, and thereafter, all future benefits will accrue under the defined-contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
- Increases the minimum pension for current retirees from \$400 to \$500 per month.
- The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.
- The retirement age for current System 2000 participants is increased gradually from age 60 to age 65.
- Eliminates the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.
- The retirement age for new employees is increased to age 67.
- The employee contribution rate will increase from 8.275% to 10%.

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)

Notes to Financial Statements

June 30, 2014

- For System 2000 participants, the retirement benefits will no longer be paid as a lump-sum distribution, instead, they will be paid through a lifetime annuity.
- Eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees is reduced from \$600 to \$200 and is eliminated for future retirees. The summer bonus will be eliminated.
- Disability benefits will be eliminated and substituted for a mandatory disability insurance policy.
- Survivor benefits will be modified.

Additional information of the ERS is provided in its financial statements for the year ended June 30, 2014 a copy of which can be obtained from the Administrator of the Retirement Systems of the Commonwealth of Puerto Rico, P.O. Box 42003, San Juan, Puerto Rico 00949.

(9) General Fund – Fund balance

At June 30, 2014, portions of the General Fund balances were committed and assigned for specific amounts as follows:

| <u>Fund balance</u> | <u>Amount</u> |
|-------------------------------------|---------------------|
| Committed: | |
| Repair of vehicles due to collision | \$ 7,257 |
| Assigned: | |
| Purchased services | 1,535 |
| Professional services | <u>52,348</u> |
| | 53,883 |
| Unassigned | <u>4,422,626</u> |
| | <u>\$ 4,483,766</u> |

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER

(An Agency of the Commonwealth of Puerto Rico)

Required Supplementary Information (Unaudited)
Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual – Non-GAAP Budgetary Basis (General Fund)

June 30, 2014

| | <u>Original budget</u> | <u>Final budget</u> | <u>Actual amounts (Budgetary basis)</u> | <u>Variance- favorable (unfavorable)</u> |
|---|----------------------------|-------------------------|---|--|
| Revenue: | | | | |
| Interest income | \$ — | — | 6,551 | 6,551 |
| Expenditures: | | | | |
| Salaries and payroll-related expenditures | 35,212,000 | 34,511,500 | 33,109,524 | 1,401,976 |
| Facilities and payments of public services | 859,000 | 859,000 | 800,023 | 58,977 |
| Purchased services | 3,198,000 | 3,415,000 | 3,310,013 | 104,987 |
| Transportation expenditures | 1,629,000 | 1,746,000 | 1,745,945 | 55 |
| Professional services | 1,383,000 | 1,720,500 | 1,576,891 | 143,609 |
| Other expenditures | 202,000 | 214,000 | 206,109 | 7,891 |
| Materials and supplies | 456,000 | 456,000 | 438,532 | 17,468 |
| Capital outlays | 40,000 | 57,000 | 55,526 | 1,474 |
| Announcements and media communications required by law | 21,000 | 21,000 | 3,627 | 17,373 |
| | <u>43,000,000</u> | <u>43,000,000</u> | <u>41,246,190</u> | <u>1,753,810</u> |
| Other financing sources – transfers: | | | | |
| Commonwealth appropriations | 43,000,000 | 43,000,000 | 43,000,000 | — |
| Excess of revenue and other financing sources over expenditures | \$ — | — | 1,760,361 | 1,760,361 |

See accompanying notes to required supplementary information.

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)

Notes to Required Supplementary Information (Unaudited)
Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual – Non-GAAP Budgetary Basis (General Fund)

June 30, 2014

The Office of the Comptroller's (the Office) budgetary system is its primary control over expenditures. The Office conducts the following procedures in order to establish the budgetary information:

- The Office prepares its annual budget and submits it to the Legislature of the Commonwealth of Puerto Rico for its approval.
- The budget is approved on the basis of a global assignment.
- The Office submits to the Office of Management and Budget of the Commonwealth of Puerto Rico (OMB) the budget detailed by expenditure classification for its recording in the books.
- The budget is prepared using the modified-accrual basis of accounting, except for encumbrances, as explained below.

The budgeted revenue presented in the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Non-GAAP Budgetary Basis, consisted of a Legislative Appropriation, for the year ended June 30, 2014 for operational appropriations of \$43,000,000.

The primary difference between the budgetary basis and the modified-accrual basis under U.S. generally accepted accounting principles (GAAP basis) is the encumbrances that are presented as expenditures under the budgetary basis.

The reconciliation of the expenditures between the budgetary basis and the GAAP basis is as follows:

| | |
|---|---------------------|
| Change in Fund Balance according to the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual Non-GAAP Budgetary Basis – General Fund | \$ 1,760,361 |
| Plus current year encumbrances not recorded as expenditures under the modified-accrual basis | 53,883 |
| Less expenditures recorded against unencumbered appropriations carried forward from prior year | (514,000) |
| Less prior year encumbrances recorded as expenditures under the modified-accrual basis | <u>(5,364)</u> |
| Change in Fund Balance according to the Schedule of Revenues, Expenditures, and Changes in Fund Balance – General Fund | <u>\$ 1,294,880</u> |

It is the Office's policy that all unencumbered funds at the end of the fiscal year be carried forward to future periods as permitted by Act. No. 230 of July 23, 1974. These unencumbered funds are allowed to be partially or totally encumbered for nonrecurrent expenditures.



STATISTICAL SECTION



CHART 1 – OPERATIONS BUDGET

The table and chart that follow indicate the composition of the budget by salaries, transportation expenditures, professional services, and others, with respect to the total legislative appropriations. In addition, present a comparative picture for two consecutive fiscal years, 2013-14 and 2012-13.

| Description | 2013-14 | | 2012-13 | |
|--|---------------|---------|---------------|---------|
| | Appropriation | Percent | Appropriation | Percent |
| Salaries and Payroll Related Expenditures | \$34,511,500 | 80.3 | \$34,985,000 | 81.4 |
| Transportation Expenditures | 1,746,000 | 4.0 | 1,629,000 | 3.8 |
| Other Purchased Services | 1,153,601 | 2.7 | 1,010,988 | 2.4 |
| Professional Services | 1,720,500 | 4.0 | 1,410,300 | 3.3 |
| Facilities and Payments of Public Services | 859,000 | 2.0 | 873,000 | 2.0 |
| Rent | 2,261,399 | 5.3 | 2,370,412 | 5.5 |
| Materials and Supplies | 456,000 | 1.1 | 447,000 | 1.0 |
| Other Expenditures | 235,000 | 0.5 | 232,300 | 0.5 |
| Capital Outlays | 57,000 | 0.1 | 42,000 | 0.1 |
| Total | \$43,000,000 | 100 | \$43,000,000 | 100 |

CHART 2 – HUMAN CAPITAL

This chart shows the distribution of human capital by auditor and support personnel for fiscal years 2013-14 and 2012-13.

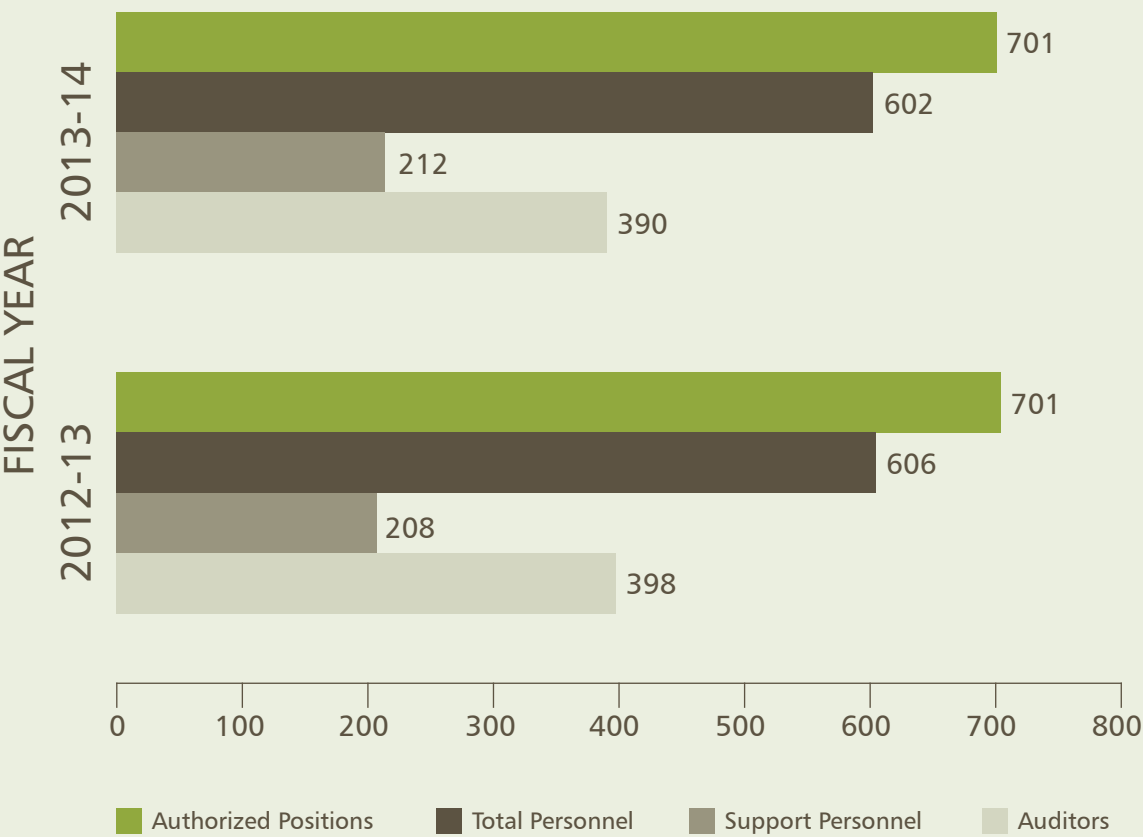
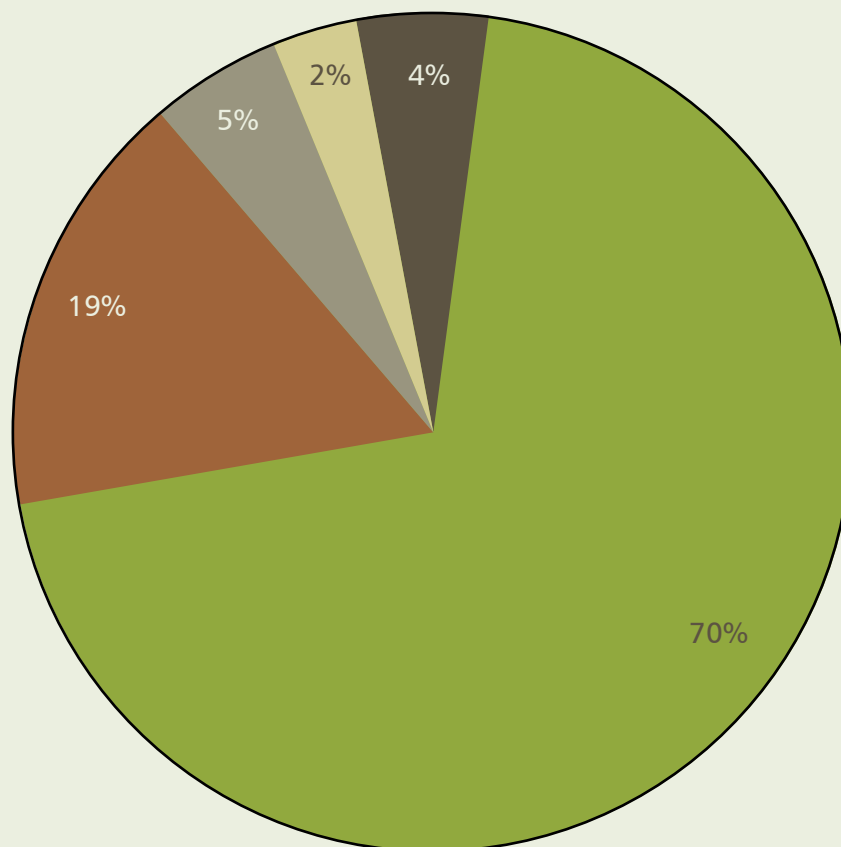


CHART 3 – TIME DISTRIBUTION



- Audits
- Service and Administrative Support
- Training
- Prevention and Anticorruption
- Information and Communication Systems

CHART 4 – MOST IMPORTANT FINDINGS INCLUDED IN AUDIT REPORTS

| Classification | Quantity |
|--|----------|
| Planning-Administrative controls | 907 |
| Purchasing, accounts payable and disbursements | 587 |
| Cash | 502 |
| General controls-Computers | 270 |
| Building and improvements | 231 |
| Personnel | 230 |
| Property | 184 |
| Professional services | 150 |
| Others | 122 |
| Revenues and receivables | 108 |
| Application controls | 100 |
| Privatization | 27 |
| Microcomputer controls | 23 |
| Donations | 19 |
| Local Area Network (LAN) controls | 4 |
| Investments | 2 |



IMPROVING

THE OVERSIGHT FUNCTION
AND ADMINISTRATION
OF PUBLIC FUNDS AND PROPERTY
IS A COMMITMENT OF ALL.

Comptrollership At Your Services...

INTERNAL ANTICORRUPTION POLICY



STATEMENT POLICY

The Office of the Comptroller of Puerto Rico is highly committed to combat corruption and fraud in the government and internally.

PHILOSOPHY OF THE ORGANIZATION

All our coworkers must act according to our codes of ethics and behavior, as well as the applicable norms and regulations of their respective working areas. Zero Tolerance for Corruption has been established through this policy.

INTERNAL CONTROL POLICY

- Code of Ethics
- Code of Behavior
- Regulations
- Procedures
- Norms for the safety of our computerized systems
- Norms for confidentiality of the Office information and processes
- Annual renewal of constitutional commitment
- Annual certification of profitable activities and of filing Income Tax Returns.

PREVENTION PHASE

Recruiting: The recruiting of personnel must comply with the regulations and procedures approved by the Comptroller.

Regulation: Effective internal controls are established in regulations, systems, and procedures of this Office to warrant transparency in administrative, fiscal, and financial processes.

Internal Controls: The managerial personnel are responsible for monitoring that the controls established in their respective working areas are effective, efficient, and updated. Our internal auditors periodically audit processes in order to determine if the controls are adequate and efficient.

External Controls: The Office is subject to monitoring by external entities, in order to promote and assure a sound public administration, as follows:

- The Advisory Committee on Internal Audit is able to require audits of the Office and have access to all the accounting files.
- External Auditors shall not be contracted for more than three consecutive years.
- Regulations and policies for suppliers of property or services were approved to regulate relations between the Office and providers.
- Office of Government Ethics of Puerto Rico (OGEPR) - both the Comptroller and designated personnel thereby, file financial statements to OGEPR.

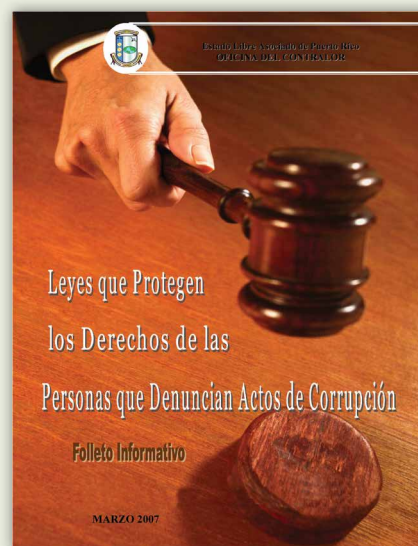
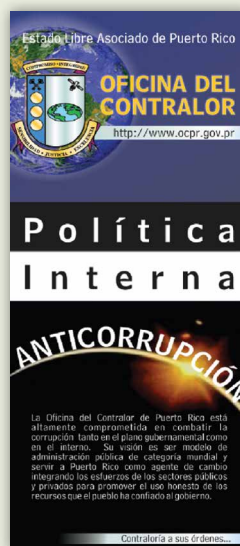
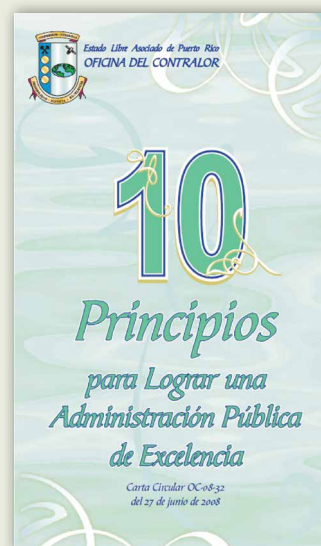
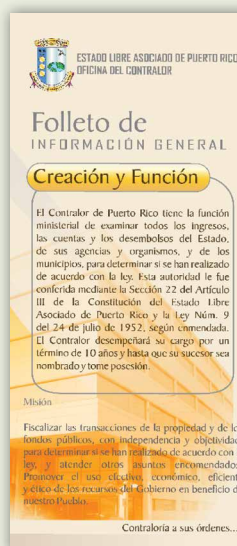
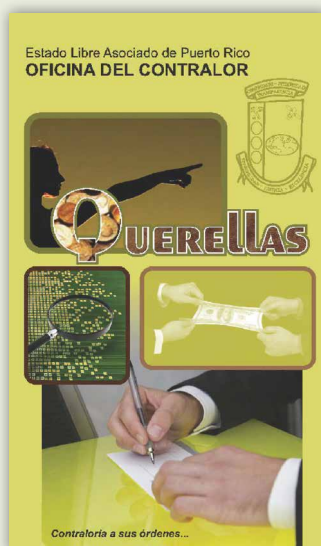
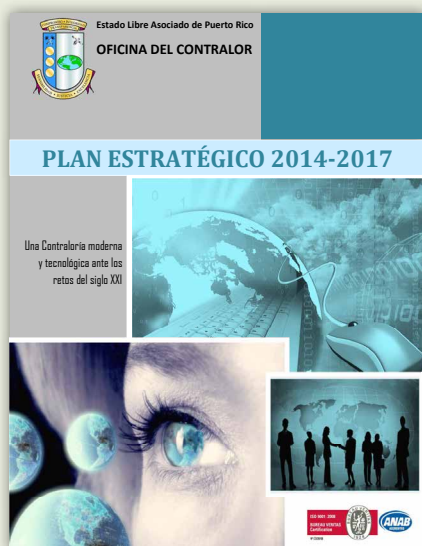
CONFIDENTIALITY

Acts No. 426 of November 7, 2000 and No. 14 of April 11, 2001, provide protection and prohibit disclosure of public employees and officials, complainants or witnesses for reporting alleged illegal acts or corruption actions.

CONTINUOUS EDUCATION

We established a policy that requires a minimum of 15 annual credit hours to support personnel and 40 credit hours to auditing staff, to expand their knowledge on internal controls, laws, regulations, fiscal norms, and procedures, among others.

REFERENCE GUIDES PUBLISHED



Comptrollership At Your Services...

