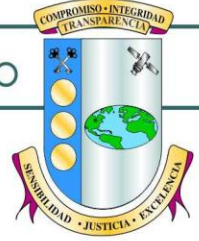


# ANNUAL REPORT

FOR FISCAL YEAR  
ENDED JUNE 30

# 2012

OFFICE OF THE COMPTROLLER • COMMONWEALTH OF PUERTO RICO



**TQM** A total Quality  
Management Organization

# ANNUAL REPORT

FOR FISCAL YEAR  
ENDED JUNE 30







# 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 peoples'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 six 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: <http://www.ocpr.gov.pr>





# Mission

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.

# Vision

To be a world-class model for public office, distinguished by: the excellence of its highly qualified human resources, its dedication to continuous improvement, a modern, adequate, and safe infrastructure, and optimum quality service.

To serve Puerto Rico as a true agent of change, integrating the efforts of the public and private sectors, in order to promote the control and honest use of the resources entrusted to the government by the people, and achieve excellence in public administration.

# Values

## Commitment

We serve responsibly and with dedication to work.

## Integrity

We work with honesty and loyalty to the institution for the benefit of our country.

## Sensibility

We respect and promote the dignity of all human beings.

## Justice

We watch and support for the strictest compliance with the law.

## Excellence

We are constantly improving ourselves.

## Transparency

We provide reliable information and maintain credibility with the people.



# Annual Report

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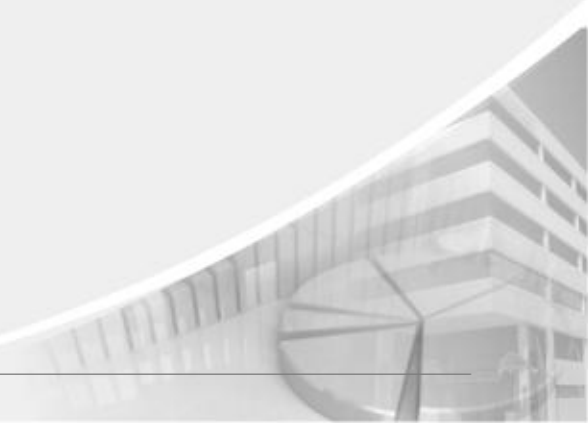
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# ANNUAL

REPORT





Commonwealth of Puerto Rico  
OFFICE OF THE COMPTROLLER

January 12, 2012

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

In the exercise of my constitutional duty, it is a pleasure to submit the Annual Report of the Office of the Comptroller of Puerto Rico, heretofore referred to as the OCPR, for the fiscal year ended June 30, 2011. The OCPR is responsible for the accurate, complete, and timely submission of information regarding the financial and administrative operations of the Commonwealth of Puerto Rico to the Governor, the President of the Senate, the Speaker of the House of Representatives, the Members of the Legislature, and the People of Puerto Rico. The OCPR also provides information to the public regarding the financial and administrative operations of the Commonwealth of Puerto Rico. The OCPR is committed to providing the highest quality of service to the Commonwealth of Puerto Rico and to the people of Puerto Rico.

*Letter of transmittal*





Commonwealth of Puerto Rico  
**OFFICE OF THE COMPTROLLER**

**Yesmín M. Valdivieso**  
*Comptroller*

April 8, 2013

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, it is a pleasure 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, 2012. 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.

The independent auditor has issued an unqualified (“clean”) opinion on the OCPR financial statements for the fiscal year ended June 30, 2012. 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 auditor’s 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 government-wide financial statements, the fund financial statements, 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 OF THE OFFICE OF THE COMPTROLLER

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, Law No. 9 of July 24, 1952, as amended.

On July 1, 2010, the Governor of Puerto Rico appointed Yesmín M. Valdivieso as Comptroller, 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 the government entities of the Executive, Legislative, and Judicial branches, into 420 units, as of June 30, 2012 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 the audit.

## STRATEGIC PLAN

The OCPR operates according to a three year Strategic Plan (2010-2012) with an Annual Objectives Plan. The Strategic Plan is divided into five Focal Areas: Oversight, Prevention, Human Capital, Technology, and Customer Service, with several objectives and initiatives that are being developed and implemented in order to make the projected goals a reality.

Each year we establish the objectives that we propose to accomplish, depending on the resources that are assigned to the OCPR.

During fiscal year 2011-12 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. The commitment and dedication of our excellent working team has permitted us to attain 87 percent of the initiatives which we summarize henceforth:

## OVERSIGHT

During the fiscal year, we published 167 audit reports, and 2 special reports. The audit reports correspond to the Legislative Branch (4), the Executive Branch (90), the Judicial Branch (26), and municipalities (47). The reports contained 3,246 situations: in the Legislative Branch (25), the Executive Branch (1,593), the Judicial Branch (197), and municipalities (1,431). In **Chart 4**



we present the classification of the most important findings. On those reports we included 2,464 recommendations: to the Governor (9), the President of the Senate and the Speaker of the House of Representatives (11), the Department of Justice (12), the Treasury Department (2), the Office of Government Ethics of Puerto Rico (10), the principal officers of the entities (2,282), and others (138).

## PREVENTION

1. Professional guidance concerning sound public administration were offered to 3,884 government officials and employees. These included internal auditors from the state government agencies, public corporations and municipalities, and 2,075 members of the public schools councils in compliance with Law 77-2006, as amended. It also includes lectures offered to 48 officials on the proper use of public property and funds in compliance with Law 78-2011, as amended, and 199 executives appointed by the Governor of Puerto Rico in compliance with Law 190-2006.
2. Participated in the Domestic Working Group meeting in Washington D.C. by invitation of Gene Dodaro, General Comptroller of the U.S Government Accountability Office.
3. Participated in national and international meetings and conferences related to our investigative and preventive functions, among them: TeamMate User Forum, IT Audit and Control Conference, National Intergovernmental Audit Forum, MSRB Education and Outreach Seminar, Conducting Performance Audit, The Bond Buyers Symposium for Distressed Municipalities, Access Data User Conference and the Annual ACFE Conference.
4. Participated in the XXI General Assembly of the *Organización Latinoamericana y del Caribe de Entidades Fiscalizadoras Superiores* (OLACEFS) in Caracas, Venezuela.
5. Participated in meetings in Colombia, Chile and Mexico by invitation of OLACEFS, in order to collaborate in planning strategies to strengthen the organization.
6. Participated and offered a lecture in the First Summit of Gender and Transparency in the Supreme Audit Institutions (SAI's), celebrated in Santo Domingo, Dominican Republic. The speakers in this conference were the 10 female directives of SAI's of Latin America and the Caribbean.
7. Answered 21 surveys and questionnaires from various Supreme Audit Institutions around the world, about topics such as audit programs, use of Team Mate, implementation of hot lines and others.
8. 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 2012.

9. 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.
10. Celebrated the Second Anticorruption Summit with the participation of the Governor of Puerto Rico and 445 officials and public servants. The Comptroller of Puerto Rico, the Executive Director of the Office of Government Ethics of Puerto Rico, the Secretary of the Department of Justice, the President of the Panel of the Special Independent Prosecutor, the General Inspector of Puerto Rico and the United States Attorney for the District of Puerto Rico offered lectures about the functions of their institutions and anticorruption initiatives.
11. Formalization of Cooperation Agreements with the following institutions:
  - a. Chamber of Accounts (*Cámara de Cuentas*) of the Dominican Republic on November 6, 2011.
  - b. Department of State on June 13, 2012.
  - c. Office of the Commissioner of Insurance on May 8, 2012.
12. Nine circular letters were issued during the fiscal year. Among the most important letters are:
  - a. Circular Letter OC-12-02 dated September 1, 2011 – Use of public funds to manage emergency situations due to atmospheric disturbances.
  - b. Circular Letter OC-12-03 dated October 7, 2011 – Sponsorships and Donations.
  - c. Circular Letter OC-12-05 dated November 15, 2011 – Use of public funds and property during the electoral period and prohibition of participation in partisan activities to certain officials.

## 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, Special Bonus and the government contribution to the Medical plan premium, 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:





- Blood donation campaigns with the American Red Cross.
  - United Funds Campaign.
  - Collection and delivery of primary needed articles to *Iniciativa Comunitaria*, a community based entity that offers various services to the homeless.
  - Collection of food and delivery to 34 families of limited economic resources.
  - Participated in activities with the Muscular Dystrophy Association.
  - Adopted the *Tomás Carrión Maduro*, School for Special Education where we worked as a team with other government agencies to maintain the school in optimal conditions for the students use.
  - Bringing goods and gifts to children from 9 homes for abused children.
5. The OCPR continued providing services as established in the Personnel Support Program empowered by Law 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.
  6. Established the new organizational structure to optimize human resources distribution based on the new vision promoted by the Comptroller. (See attached)

## TECHNOLOGY

1. Facilitated the implementation of the new version of MIP Account System to support the fiscal autonomy initiative.
2. Added to and upgraded web versions of the Contracts Registry and Registry of Irregularities Related to Public Funds and Property in the Digital Comptrollership (*Contraloría Digital*) homepage.
3. Implemented the hardware and software needed to enable use of new electronic auditing tools.
4. Installed the hardware and software necessary to support the development of audit-related data warehouses, data mining tools and business intelligence technology.

## CUSTOMER SERVICE

1. Evaluated the results of surveys to measure customer satisfaction of the general public "*Contraloría a su Alcance*" initiative.
2. Introduced a new template for the audit reports to make them easier to read and understand the findings.

3. The complaint process was changed to make it faster, effective and convenient.
4. The Comptroller visited 77 municipalities in two years to share her vision on prevention and how the OCPR can become an information facilitator and promote prevention efforts to speed up the audit process.

## OTHER INICIATIVES

Three important laws were approved by the Governor during the fiscal year that impact many areas of the comptrollership. They are:

1. Law 58 -2012 – Confirms the administrative independence of the OCPR and clarifies the non-applicability of certain laws related to administrative and budgetary issues. It provided fiscal autonomy to the OCPR.
2. Law 275 - 2011 – Granted the Comptroller of Puerto Rico power to purchase and finance the acquisition or construction by any legal means, of the real estate necessary to relocate its headquarters and centralize its operations.
3. Law 276 - 2011 – Authorizes the Comptroller of Puerto Rico to negotiate and contract directly with healthcare insurance companies, obtaining better benefits for the employees.

## TOTAL QUALITY MANAGEMENT

### EXTERNAL SEMINARS

In order to learn and share knowledge on the best practices in international quality management issues, two staff members participated in the Annual World Conference on Quality and Improvement, sponsored by the American Society for Quality (ASQ). Representatives from different companies and organizations presented their work models to implement the new role of quality and obtain high returns and competitiveness in order to satisfy the needs of their clients. Focus areas reviewed were: Basic Quality, Best Practices in Supply Chain Management, Changing Technology, Globalization and Managing Risk. In this Conference we were able to compare our trajectory with that of International members of the quality community.

### 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 2011-2012, we evaluated the Corrective Action Plan process related to the audit function, using the Process Improvement Team's methodology. Also, the OCPR met 93 percent of the quality objectives defined for the year.



## **NEWSLETTER - CONTRALORÍA CON CALIDAD**

We published an electronic edition of the quality newsletter, which informs our personnel of our accomplishments and provides updates on the latest Total Quality Management techniques and best practices.

## **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. Before the date of publication of this report, 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.

## **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 Law No. 9, which allows the Comptroller, in the exercise of his authority, to adopt practices and procedures generally accepted in current auditing practices.

By June 30, 2012, the OCPR had received 569 and evaluated 558 CAPs to ascertain compliance with the recommendations contained in the audit reports; this represents 98 percent of the evaluations. This figure includes initial CAPs and complementary reports. During fiscal year 2010-11 the OCPR received 796 and evaluated 792 CAPs, the 4 remaining were evaluated during fiscal year 2011-12. The Administrative Bulletin 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 auditor's management letters. If, upon due consideration, the agency 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 Law 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, issued by the Comptroller on February 27, 1998 and amended on September 15, 2009.

The OCPR maintains a registry and a file for every contract and deed received and 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 <http://www.ocpr.gov.pr>. Interested parties may request copies of these contracts. A nominal fee is required for each copy. The OCPR received 551 requests for copies during fiscal year 2010-11, and 655 during 2011-12.

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 IRREGULARITIES RELATED TO PUBLIC FUNDS AND PROPERTY INFORMED BY GOVERNMENT ENTITIES**

The OCPR instituted a computerized registry system during fiscal year 1994-95 in order to record the information received from the various government entities regarding the loss of public funds and property. This computerized system was established to collect and store the data reported by government entities in compliance with the provisions of Law 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.

In compliance with the requirements of Law No. 96, during fiscal year 2010-11, the OCPR received information on 3,769 cases for a loss of \$1,763,429; during fiscal year 2011-12, it received



information on 2,724 cases for a loss of \$2,692,087. These cases are subject to further examination when the corresponding government entities are audited.

## REGISTRY OF PRIVATIZATION

Law 136-2003, as amended by Law 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 <http://www.ocpr.gov.pr>.

## GOVERNMENT PAYROLL EXPENSES AND JOB REGISTRY

According to Law 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, Law 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 2011-12 was \$43,000,000, which represents the same amount of the budget for the previous five years. The OCPR spent and encumbered \$41,949,842 leaving a balance not reserved of \$1,050,158. This balance is available for non-recurring expenses for a three-year period, according to Law No. 230 of July 23, 1974, as amended, "Puerto Rico Government Accounting Act". Specific information is presented in the Statistical Section of this Report. (Chart 1)

### HUMAN CAPITAL

As of June 30, 2012, the OCPR had 642 full time occupied positions or 92 percent out of 701 authorized positions; 424 were auditors and 218 were support personnel. Support personnel consist of legal counsels, administrative staff, and other professionals. (Chart 2) During 2011-12, 6 auditors and 9 support personnel resigned or retired, while 5 support personnel were hired. A grand total of 918,893.50 hours were dedicated to audits, administrative and office work, training, compensated absences, and other activities. (Chart 3)

## TRAINING

The OCPR has established internal regulation that requires support personnel 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 2011-12, 31,361 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 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

PKF, LLP, an independent certified public accounting firm, performed the audit of the financial statements of the OCPR for fiscal year ended June 30, 2012, as well as for the years ended June 30, 2011 and 2010. The Independent Auditors' Report is included in the Financial Section. The accounting firm performed the audit on time as expected, and the OCPR received the certified financial statements on September 27, 2012.





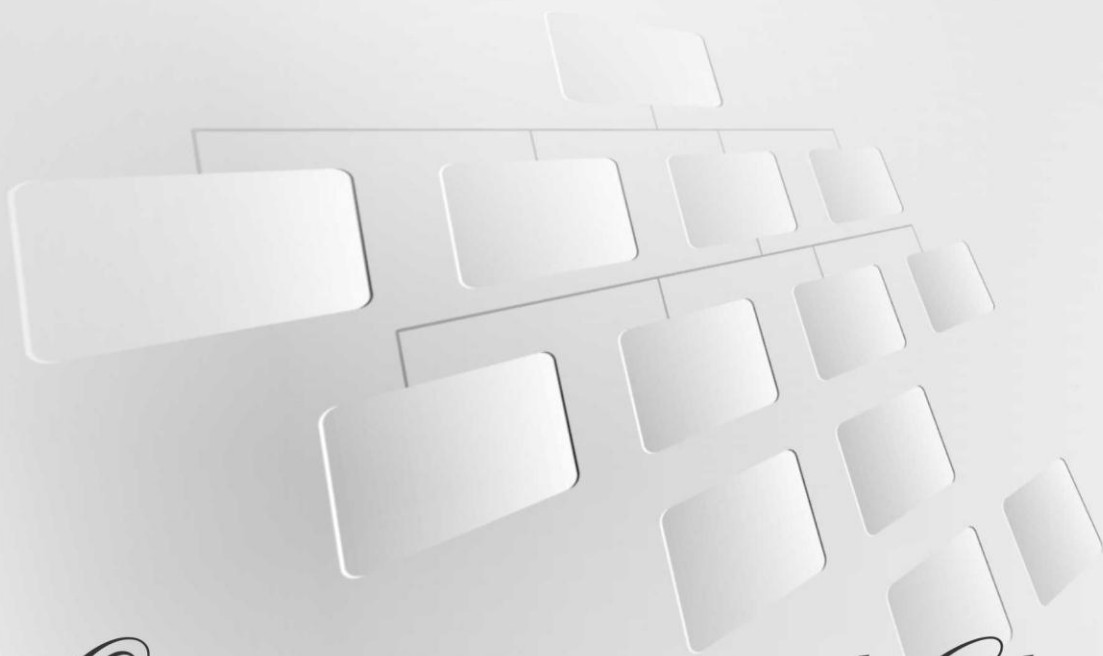
## **FINANCIAL REPORTING**

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,

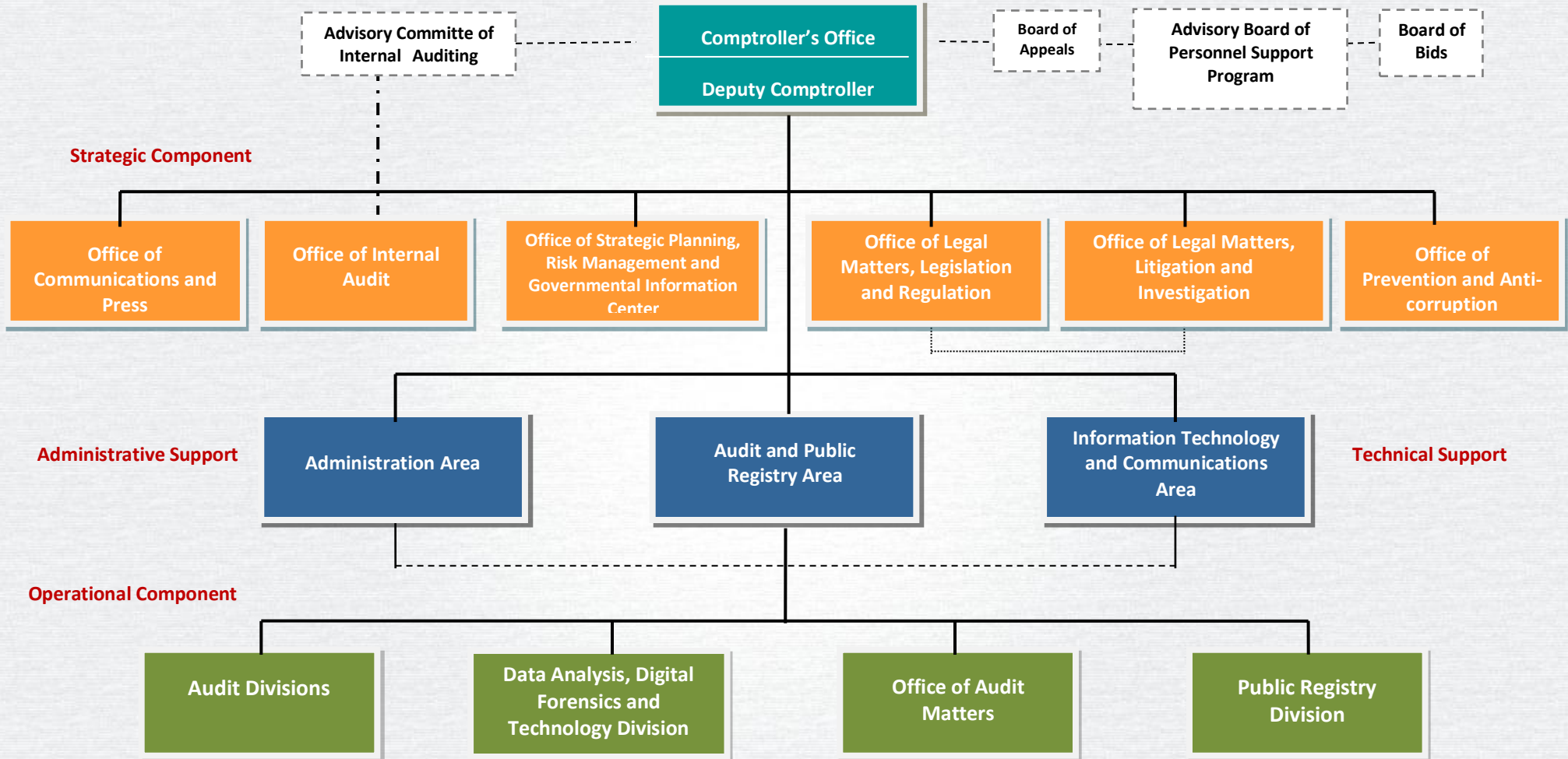
Yesmín M. Valdivieso



# *Organizational Chart*



Commonwealth of Puerto Rico  
Office of the Comptroller  
Organizational Chart







# *Principal Officers*

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# 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

**José L. Ojeda Figueroa**  
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  
Audit Matters Office

**Héctor A. Rivas Ortiz**  
Audit Director  
Departments and Agencies Division

**Julio J. Dávila Bravo**  
Audit Director  
Public Corporations Division

**Elizabeth Soto Cátala**  
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 Castro Laboy**  
Director of Public Registry Division

## ADMINISTRATION AREA

**Oscar A. Luna Diaz**  
Director  
Finance and Budget Division

**Iseut G. Vélez Rivera**  
Director  
Human Capital Division

**Elsa 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

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# *Financial Section*

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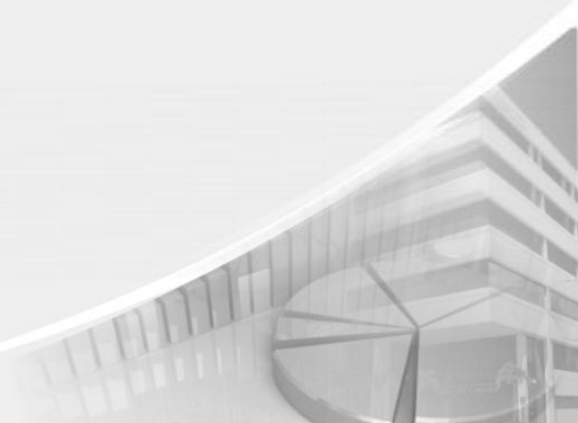
Accountants &  
business advisers

**COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER**

**FINANCIAL STATEMENTS**  
(With the Independent Auditors' Report Thereon)

**FISCAL YEAR ENDED  
JUNE 30, 2012**

ANNUAL  
REPORT





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## INDEPENDENT AUDITORS' REPORT

Hon. Yesmín M. Valdivieso, CPA  
Comptroller  
Commonwealth of Puerto Rico  
Office of the Comptroller  
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities of the Office of the Comptroller of the Commonwealth of Puerto Rico (the Office) as of and for the year ended June 30, 2012, which collectively comprise the Office's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Office of the Comptroller of the Commonwealth of Puerto Rico as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the financial statements of the Office are intended to present the financial position and changes in financial position of only that portion of the governmental activities of the Commonwealth of Puerto Rico attributable to the transactions of the Office. They do not purport to, and do not, present fairly the financial position and changes in financial position of the Commonwealth of Puerto Rico in conformity with accounting principles generally accepted in the United States of America.

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Accountants &  
business advisers

Hon. Yesmín M. Valdivieso, CPA  
Comptroller  
Commonwealth of Puerto Rico  
Office of the Comptroller  
San Juan, Puerto Rico  
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012, on our consideration of the Office's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, and contract agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and budgetary comparison information on pages 3 through 7 and 14, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted principally 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 of the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



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Expires December 1, 2013

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Management's Discussion and Analysis  
June 30, 2012

The Office of the Comptroller, (the Office) an agency principally assigned to the Legislative Branch of the Commonwealth of Puerto Rico, 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, 2012.

Financial Highlights

- Total liabilities of the Office at the close of the fiscal year ended June 30, 2012 amounted to \$9,822,540 comprised of the accrual required under GASB No. 34 for vacations and sick leave in the amount of \$9,498,170 and \$324,370 due to creditors and employees. The liabilities exceeded its assets by \$4,664,414 principally 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 \$170,603.
- The final budget of the Office for fiscal year 2011-2012 was \$43,000,000.

The Office achieved an economy of \$1,050,158 in its management of the general fund budget for the fiscal year 2011-2012.

Overview of the Financial Statements

This Management's Discussion and Analysis document is intended to serve as an introduction to the Office of the Comptroller's basic financial statements. The Office of the Comptroller'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 of the Comptroller's financial position, in a manner similar to a private-sector business.

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



COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Management's Discussion and Analysis (continued)  
June 30, 2012

Overview of the Financial Statements (continued)

Government-Wide Financial Statements (continued):

The Statement of Activities presents information showing how the Office of the Comptroller's net assets changed during the most recent fiscal year. All changes in net assets 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 of the Comptroller that are supported by legislative assessments from the General Fund of the Commonwealth of Puerto Rico (governmental activities). The Office of the Comptroller of Puerto Rico has the constitutional duty to ascertain that all revenues, accounts and disbursements of the Commonwealth of Puerto Rico and all operations involving public funds and public property were performed as stated in Article III of the Constitution of the Commonwealth of Puerto Rico, Act No. 9 of July 24, 1952, as amended.

The Government-Wide Financial Statements of the Office of the Comptroller's finances can be found on pages 8 to 9 of this report.

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 of the Comptroller, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund of the Office of the Comptroller belongs to categories 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 Governmental Fund Balance Sheet and the Statement of Governmental Fund of Revenues, Expenditures, and Changes in Fund Balance provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Management's Discussion and Analysis (continued)  
June 30, 2012

Overview of the Financial Statements (continued)

Fund Financial Statements (continued):

The Office of the Comptroller maintains one individual governmental fund and adopts an annual appropriated budget for its General Fund. A budgetary comparison statement 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 the financial statements can be found on pages 15 to 23 of this report.

Financial Analysis of the Government's Funds

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

Net Deficit

The Statement of Net Deficit serves as an indicator of the Office's financial position at the end of fiscal year. The Office's net deficit decreased by \$379,109 over the course of this fiscal year operations. The Office's net deficit includes investment in capital assets for \$1,888,951 and a deficit of \$6,553,365. The following is a Condensed Statement of Net Deficit for fiscal years ended June 30, 2012 and 2011.

<u>Condensed Statement of Net Deficit</u>			
	<u>2012</u>	<u>2011</u>	<u>Change</u>
Current assets	\$ 3,269,175	\$ 3,276,526	\$ (7,351)
Capital assets, net	<u>1,888,951</u>	<u>1,710,997</u>	<u>177,954</u>
Total assets	<u>5,158,126</u>	<u>4,987,523</u>	<u>170,603</u>
Current liabilities	3,092,492	3,425,752	(333,260)
Non-current liabilities	<u>6,730,048</u>	<u>6,605,294</u>	<u>124,754</u>
Total liabilities	<u>9,822,540</u>	<u>10,031,046</u>	<u>(208,506)</u>
Net deficit			
Invested in capital assets	1,888,951	1,710,997	177,954
Deficit	<u>(6,553,365)</u>	<u>(6,754,520)</u>	<u>201,155</u>
Total net deficit	<u>\$ (4,664,414)</u>	<u>\$ (5,043,523)</u>	<u>\$ 379,109</u>

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Management's Discussion and Analysis (continued)  
June 30, 2012

Financial Analysis of the Government's Funds (continued)

Capital Assets

The capital assets of the Office of the Comptroller are those assets that are used in the performance of its functions. The investment in capital assets for the fiscal year ended June 30, 2012, amounts to \$1,888,951. The total invested in the Office of the Comptroller's capital assets for the fiscal year was \$757,472.

Major capital assets events during the current fiscal year included the following:

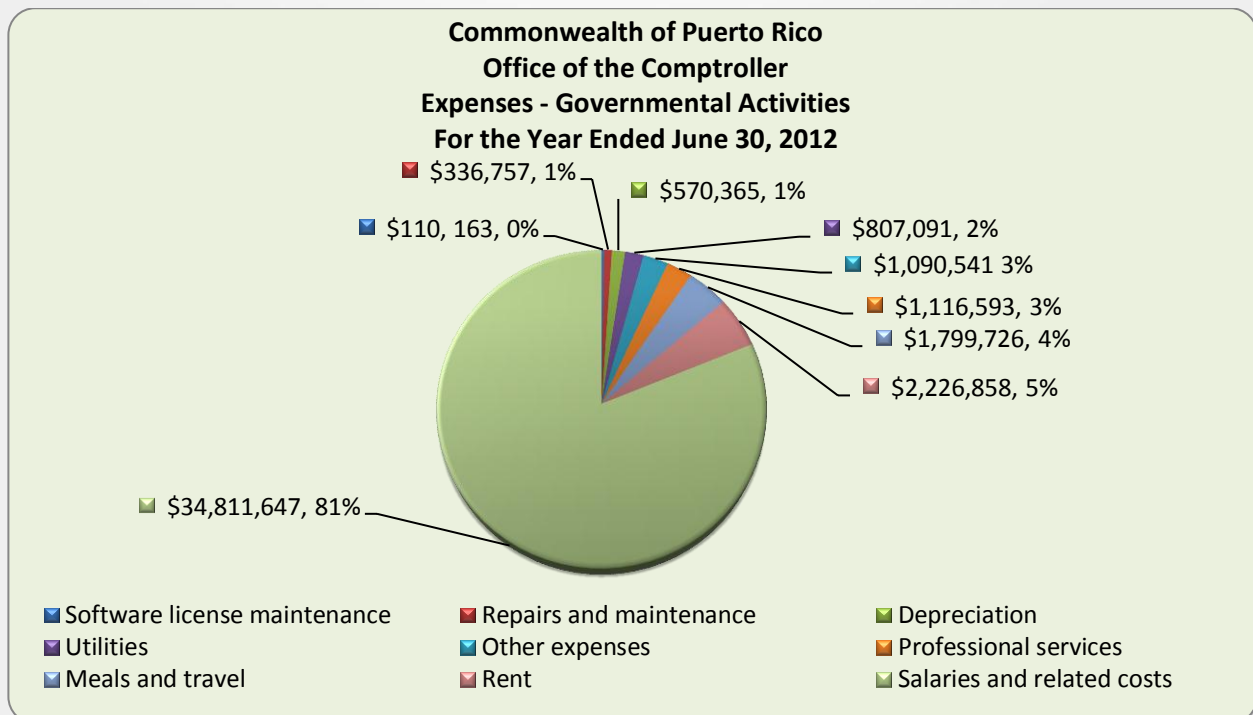
- The acquisition of equipment and furniture at a cost of \$522,375.
- The acquisition of software including capitalization of internally developed software in the amount of \$235,097.
- The retirement of equipment, electronic equipment, furniture and software in the total amount of \$423,397.

Changes in Net Deficit

The following Condensed Statement of Activities reflects how the Office's Net Deficit changed during the fiscal year ended June 30, 2012.

	2012	2011	Change
Revenues	\$ 43,248,850	\$ 43,000,000	\$ 248,850
Expenses	(42,869,741)	(42,324,813)	(544,928)
Change in Net Deficit	\$ 379,109	\$ 675,187	\$ (296,078)

The following chart presents the expenses incurred by the Office during the fiscal year ended June 30, 2012.



COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Management's Discussion and Analysis (continued)  
June 30, 2012

Financial Analysis of the Government's Funds (continued)

The Office's major expense is related to salaries, benefits and payroll taxes which represent the 81% of total expenses incurred during fiscal year ended June 30, 2012.

General Fund Budgetary Highlights:

The 2011-2012 General Fund Budget was \$43,000,000 and actual expenses in the budgetary basis were \$41,949,842. Total expenditures represented 97.6% of total budget availability for the fiscal year. The Office's expenditure rate presents a similar rate when compared to prior year performance (96.8%).

The following table summarizes the budget expenditures and unexpended balance for the fiscal years ended June 30, 2012 and 2011.

	<u>Budget and Expenditures Comparison</u>	
	<u>2012</u>	<u>2011</u>
Revenue		
State appropriation	\$ 43,000,000	\$ 43,000,000
Expenditures	<u>41,949,842</u>	<u>41,638,363</u>
Unexpended balance	<u>\$ 1,050,158</u>	<u>\$ 1,361,637</u>
Expenditure rate	97.6%	96.8%

The operational results, presents a savings on the assigned budget amounting to \$1,050,158 and \$1,361,637, for years ended 2012 and 2011, respectively.

Economic Factors and Next Year's Budget

The economy of Puerto Rico must be analyzed as a region within the United States economy, since it is part of the United States monetary and banking system, as well as within its territorial boundaries. The main drive of the Puerto Rico economy is a huge external sector closely tied to the flow of merchandise, tourists, and capital between Puerto Rico and the Mainland.

The Office adopted the 2011-2012 fiscal year budget on July 1, 2011. The legislative appropriations for the fiscal year 2012 amounted to \$43,000,000.

Requests for Information

This financial report is designed to provide a general overview of the Office of the Comptroller'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

Statement of Net Deficit - Governmental Wide  
June 30, 2012

ASSETS

Current assets:	
Cash with fiscal agent	\$ 3,224,988
Accounts receivable	<u>44,187</u>
Total current assets	3,269,175
Noncurrent assets:	
Capital assets, net	<u>1,888,951</u>
Total assets	<u>5,158,126</u>

LIABILITIES AND NET DEFICIT

Current liabilities:	
Accounts payable and accrued liabilities	324,370
Accrued compensated absences, current portion	<u>2,768,122</u>
Total current liabilities	3,092,492
Noncurrent liabilities:	
Accrued compensated absences, long term portion	<u>6,730,048</u>
Total liabilities	<u>9,822,540</u>
Net deficit:	
Invested in capital assets	1,888,951
Deficit	<u>(6,553,365)</u>
Total net deficit	\$ <u>(4,664,414)</u>

See notes to financial statements.

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Statement of Activities - Governmental Wide  
For the Year Ended June 30, 2012

Expenses	
Salaries and payroll related costs	\$ 34,811,647
Meals and travel	1,799,726
Professional services	1,116,593
Insurance	30,830
Rent	2,226,858
Utilities	807,091
Non-capitalizable equipment	100,428
Depreciation and amortization	570,365
Materials and supplies	123,045
Repairs and maintenance	336,757
Software licenses maintenance	110,163
Trainings and continuing professional education	230,699
Suscriptions and memberships	93,965
Outsource services:	
Security	250,016
Maintenance	104,141
Other	23,898
Printing services	21,674
Postage	11,775
Miscellaneous	90,917
Loss on disposition of assets	9,153
	<u>42,869,741</u>
Revenues	
State appropriation	43,000,000
Other financial resources	248,850
	<u>43,248,850</u>
Change in net assets	379,109
Net deficit at beginning of year	<u>(5,043,523)</u>
Net deficit at end of year	<u>\$ (4,664,414)</u>

See notes to financial statements.

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Balance Sheet-Governmental Fund  
June 30, 2012

ASSETS

Cash with fiscal agent	\$ 3,224,988
Accounts receivable	<u>44,187</u>
Total assets	<u>\$ 3,269,175</u>

LIABILITIES

Accounts payable and accrued liabilities	<u>\$ 324,370</u>
--	-------------------

FUND BALANCE

Committed	7,257
Assigned	305,143
Unassigned	<u>2,632,405</u>
Total fund balance	<u>2,944,805</u>
Total liabilities and fund balance	<u>\$ 3,269,175</u>

See notes to financial statements.

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Reconciliation of the Balance Sheet-  
Governmental Fund to the Statement of Net Deficit  
June 30, 2012

Fund balance per Balance Sheet - Governmental Fund	\$ <u>2,944,805</u>
--	---------------------

Amounts reported for governmental activities in the Statement of  
Net Deficit are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Balance Sheet-Governmental Fund.	1,888,951
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Accrued compensated absences are not due and payable neither in the current period nor with current year budget resources and therefore are not reported in the Balance Sheet-Governmental Fund.	<u>(9,498,170)</u>
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	<u>(7,609,219)</u>
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Net deficit per Statement of Net Deficit	\$ <u>(4,664,414)</u>
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See notes to financial statements.



COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Statement of Revenues, Expenditures and Changes in Fund Balance  
Governmental Fund  
For the Year Ended June 30, 2012

Revenues	
State appropriation	\$ 43,000,000
Other financial resources	248,850
	<u>43,248,850</u>
Expenditures	
Salaries and payroll related costs	34,938,209
Meals and travel	1,799,726
Professional services	1,116,593
Insurance	30,830
Rent	2,226,858
Non-capitalizable equipment	100,428
Utilities	807,091
Capital outlays	757,472
Materials and supplies	123,045
Repairs and maintenance	336,757
Software licenses maintenance	110,163
Trainings and continued professional education	230,699
Subscriptions and memberships	93,965
Outsource services:	
Security	250,016
Maintenance	104,141
Other	23,898
Printing services	21,674
Postage	11,775
Miscellaneous	90,917
	<u>43,174,257</u>
Excess of revenues over expenditures	74,593
Fund balance at beginning of year	<u>2,870,212</u>
Fund balance at end of year	<u>\$ 2,944,805</u>

See notes to financial statements.

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balance - Governmental Fund to the Statement of Activities  
For the Year Ended June 30, 2012

Excess of revenues over expenditures in the Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Fund.	<u>\$ 74,593</u>
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Amounts reported in the Statement of Activities are different because:

Governmental fund report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense.	757,472
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Depreciation and amortization expense on capital assets is reported in the Statement of Activities but does not require the use of current financial resource. Therefore, depreciation and amortization expense is not reported as expenditure in the statement of governmental fund.	(570,365)
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Loss on disposition of assets is reported in the Statement of Activities, but does not require the use of current financial resources. Therefore, loss on disposition of assets is not reported as expenditure in the statement of governmental fund.	(9,153)
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Compensated absences expense reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in statement of governmental fund.	<u>126,562</u>
--	----------------

304,516

Change in net deficit of governmental activities	<u>\$ 379,109</u>
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See notes to financial statements

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Statement of Revenues and Expenditures and  
Changes in Fund Balance - Budget and Actual  
Non GAAP Budgetary Basis

Year Ended June 30, 2012

	Original budget	Final budget	Actual amounts in the budgetary basis	Variance favorable (Unfavorable)
Revenue:				
State appropriations	\$ 43,000,000	\$ 43,000,000	\$ 43,000,000	\$ -
Expenditures:				
Salaries and payroll related expenditures	35,212,000	34,869,526	34,453,878	415,648
Facilities and payments of public services	684,000	893,000	829,370	63,630
Purchased services	2,969,000	3,399,058	3,183,796	215,262
Scholarships and distributions	-	5,670	5,670	-
Transportation expenditures	1,499,000	1,717,825	1,610,493	107,332
Professional services	885,000	1,271,850	1,126,447	145,403
Other expenditures	1,275,000	217,971	192,497	25,474
Materials and supplies	455,000	532,100	499,595	32,505
Capital outlays	-	78,000	36,416	41,584
Announcements and media publications required by Law	21,000	15,000	11,680	3,320
	<u>43,000,000</u>	<u>43,000,000</u>	<u>41,949,842</u>	<u>1,050,158</u>
Net change in fund balance	\$ -	\$ -	\$ 1,050,158	\$ 1,050,158

See notes to financial statements.

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Notes to Financial Statements  
June 30, 2012

Note 1 - Organization and summary of significant accounting policies:

Organization

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

The Commonwealth of Puerto Rico 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 function of the Comptroller of Puerto Rico is to audit all the revenues, accounts and expenditures of the Commonwealth of Puerto Rico, 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 required by the Legislative Assembly 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 entity of the Commonwealth of Puerto Rico, assigned principally to the Legislative Branch of the Government. The administration of the Office is autonomous and is under the direction of the Comptroller of Puerto Rico.

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

The financial reporting entity

The Office is for financial reporting purposes a part of the Commonwealth of Puerto Rico. Because the Office is part, for financial reporting purposes, of the Commonwealth of Puerto Rico, its financial data is included as part of the general government section in the general fund of the Commonwealth of Puerto Rico financial statements.

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

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Notes to Financial Statements (continued)  
June 30, 2012

Government-Wide and Fund Financial Statements

The Government-Wide Financial Statements (the Statement of Net Deficit and the Statement of Activities) report information on all of the activities of the Office. The Statement of Activities demonstrates the degree to which the total expenses are offset by total revenues. Separate financial statements are provided for governmental funds.

Measurement focus, basis of accounting, and financial presentation

The Government-Wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Office considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Fund accounting

The Office reports its financial position and results of operations in a general fund which is considered a separate accounting entity. The operation of the general fund is accounted for within a set of self-balancing accounts. The general fund is the operating fund of the Office. It is used to account for all the transactions of the Office.

Cash with fiscal agent

The funds of the Office are under the custody of the Secretary of the Treasury of Puerto Rico pursuant to Act. No. 230 of July 23, 1974, as amended, known as "Commonwealth of Puerto Rico Accounting Law". The Treasury Department follows the practice of pooling cash and cash equivalents under the custody and control of the Secretary of the Treasury. The funds of the Office in such pooled cash accounts are available to meet its current operating requirements. No collateral is required to be maintained for these pooled accounts.



COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Notes to Financial Statements (continued)  
June 30, 2012

Capital assets

Capital assets, which include property and equipment, are reported in the Government-Wide Financial Statements of the Office. The Office defines capital assets of government 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 recorded as expenditures in the Governmental Fund Financial Statements. Depreciation and amortization expense is recorded in the Government-Wide Financial Statements.

Capital assets are depreciated using the straight-line method over the assets estimated useful lives. The estimated useful lives of capital assets are as follows:

	<u>Years</u>
Equipment	5
Electronic equipment for data processing	5
Furniture	10
Software	5
Vehicles	5-10

Compensated absences

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. 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.

Insurance

The Commonwealth of Puerto Rico 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 workers' compensation the State Insurance Fund Corporation, a component unit of the Commonwealth of Puerto Rico, provides the workers compensation to the Office employees.

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Notes to Financial Statements (continued)  
June 30, 2012

Budgetary data

The Office's budgetary system is its primary control over expenditures. The Office conducts the following procedures in order to establish the budgetary information reflected in the accompanying financial statements:

- The Office prepares its annual budget and submits it to the Legislature 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 modified accrual basis of accounting, except for encumbrances, as explained below.

The budgeted revenue presented in the Statement of Revenue, Expenditures and Changes in Fund Balance-Budget and Actual-Non GAAP Budgetary Basis, consisted of a Legislative Appropriation, by resolution, for the year ended June 30, 2012 for operational appropriations of \$43,000,000.

The primary differences between the budgetary basis and the GAAP basis are the encumbrances are presented as expenditures under the budgetary basis.

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

Expenditures according to the Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual Non GAAP Budgetary Basis	\$ 41,949,842
Plus prior year encumbrances and expenditures related to unencumbered savings funds recorded as expenditures during current year under the GAAP basis	1,445,448
Less current year encumbrances not recorded as expenditures under the modified accrual basis	<u>(221,033)</u>
Expenditures according to the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	<u>\$ 43,174,257</u>

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Notes to Financial Statements (continued)  
June 30, 2012

Budgetary data (continued)

In August 1994, the Governmental Accounting Law of the Commonwealth of Puerto Rico, Law 230 of July 23, 1974, was amended in order to establish that all of the unencumbered funds of the governmental agencies will remain in their accounting books at the end of the fiscal year for which they were granted. These unencumbered funds are allowed to be partially or totally encumbered for non-recurrent expenditures and for a period of three (3) years from the closing of the fiscal year for which they pertain. The balance of obligated funds (encumbrances) and non-obligated funds as of June 30, 2012, are composed of the following:

<u>Fiscal Year</u>	<u>Obligated Funds</u>	<u>Non-Obligated Funds</u>
2008-2009	\$ 4,511	\$ 4,530
2009-2010	78,119	581,296
2010-2011	1,480	1,003,678
2011-2012	<u>221,033</u>	<u>1,050,158</u>
	<u>\$ 305,143</u>	<u>\$ 2,639,662</u>

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, 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.

Net assets (deficit)

Net assets (deficit) are the difference between assets and liabilities in the Governmental Wide Financial Statements. Net assets (deficit) are segregated in the following two (2) categories:

- Invested in capital assets— These consist of capital assets, less accumulated depreciation and amortization.
- Unrestricted – These consist of net assets which do not meet the definition of the preceding category.

Fund equity

For the fiscal year ended June 30, 2012, the Office is in compliance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes new categories for reporting fund balance and revises the definitions for governmental fund types.

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Notes to Financial Statements (continued)  
June 30, 2012

Fund equity (continued)

Governmental Fund balance is reported in five (5) classifications that comprise a hierarchy based primarily on the extent to which the Office is bound to honor constraints on the specific purposes for which those funds can be spent. The five (5) classifications of fund balance for the Governmental Funds are as follow:

- Non-spendable – resources which cannot be spent because they are either a) not in spendable form or; b) legally or contractually required to be maintained intact.
- Restricted – resources with constraints placed on the use of resources which either a) externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or; b) imposed by law through constitutional provisions or enabling legislation.
- Committed – resources which are subject to limitations the government imposes on itself at its highest level of decision making authority, and that remain binding unless removed in the same manner.
- Assigned – resources that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.
- Unassigned – resources which have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

The Commonwealth of Puerto Rico through its instrumentalities has the responsibility for committing fund balance amounts. For assigned fund balance amounts, the Office's Comptroller has the authority to assign unspent budgeted amounts to specific purposes in the General Fund at year end. The Office's Comptroller approves the assigned amounts before year end.

Subsequent events

In May 2009, the Financial Accounting Standards Board (FASB) established standards related to accounting for, and disclosure of, events that occur after the statement of position date, but before financial statements are issued or are available to be issued. Management has evaluated subsequent events through September 27, 2012, the date the financial statements were available to be issued. (Refer to Note 9).

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Notes to Financial Statements (continued)  
June 30, 2012

Note 2 - Capital assets

Capital assets activity for the year ended June 30, 2012 was as follows:

	Beginning balance	Additions	Retirements	Ending balance
Governmental activities				
Capital assets, being depreciated:				
Equipment	\$ 1,129,509	\$ 24,106	\$ (99,449)	\$ 1,054,166
Electronic equipment	2,979,451	494,162	(248,079)	3,225,534
Furniture	1,192,351	4,107	(24,722)	1,171,736
Computer software	1,005,169	235,097	(51,147)	1,189,119
Vehicles	362,099	-	-	362,099
Total capital assets being depreciated	<u>6,668,579</u>	<u>757,472</u>	<u>(423,397)</u>	<u>7,002,654</u>
Less accumulated depreciation and amortization for:				
Equipment	949,681	54,953	(97,651)	906,983
Electronic equipment	2,196,625	361,203	(246,289)	2,311,539
Furniture	863,708	72,413	(21,703)	914,418
Computer software	676,609	58,376	(48,601)	686,384
Vehicles	270,959	23,420	-	294,379
Total accumulated depreciation and amortization	<u>4,957,582</u>	<u>570,365</u>	<u>(414,244)</u>	<u>5,113,703</u>
Total capital assets, being depreciated, net	<u>\$ 1,710,997</u>	<u>\$ 187,107</u>	<u>\$ (9,153)</u>	<u>\$ 1,888,951</u>

Note 3 - Governmental Fund - Fund balance

At June 30, 2012, portions of the Governmental Fund balances were committed and assigned for specific amounts as follow:

<u>Fund balance</u>	<u>Amount</u>
Committed	
Repairs and maintenance of vehicles	<u>\$ 7,257</u>
Assigned	
Salaries and payroll related expenditure	2,324
Facilities and payments of public services	26,855
Purchased services	44,896
Transportation	11,861
Professional services	97,607
Other	15,575
Materials and supplies	33,119
Purchase of equipment	<u>72,906</u>
	305,143
Unassigned	<u>2,632,405</u>
	<u>\$ 2,944,805</u>



COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Notes to Financial Statements (continued)  
June 30, 2012

Note 4 - Pension plan

The Office participates in the Employee's Retirement System of the Government of Puerto Rico and its instrumentalities (ERS), a multiple-employer contributory retirement plan, which covers only eligible full-time employees. The system provides retirement, death, and disability benefits and annuities to Commonwealth employees not covered by their own systems.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Office is required by the same statute to contribute 10.275% of the participants' gross salary. Total employer contributions during the year ended June 30, 2012 amounted to \$2,557,407, of which approximately \$248,000 were paid by the Office of Management and Budget in behalf of the Office of Comptroller of Puerto Rico as a result of the Joint Resolution No. 54, dated on June 10, 2011.

Effective, July 1, 2011, Commonwealth of Puerto Rico implemented the increases in the Retirement System that the President of the Retirement System Commission, Mr. Miguel Romero, approved for all governmental employees. These increases consist of the following:

- An increase in the employer contribution from 9.275% to 10.275%, effective in July 1, 2011.
- An increase in the annual employer contribution of 1% of the regular retribution received by the participants, beginning in July 1, 2012 and ending in June 30, 2016, and an annual increase of the employer contribution of 1.25% of the regular retribution received by the participant beginning in July 1, 2016 and ending in June 30, 2021.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1991, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining on or after January 1, 2000 will only be allowed to become members of the System 2000.

System 2000 reduces the retirement age from 65 to 60 for those employees who joined the current plan on or after April 1, 1990. System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of pension assets, which is invested by the System together with those of the current defined benefit plan. The Commonwealth of Puerto Rico 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 75% 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 (10.275% of the employee's salary) is used to fund the current plan.

For the year ended June 30, 2012, total covered payroll was \$24,887,795. Covered payroll refers to all compensation paid by the Office to employees covered by the ERS on which contributions to the pension are based.

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Notes to Financial Statements (continued)  
June 30, 2012

Note 4 - Pension plan (continued)

The amount of the annuity shall be one and one-half percent (1.50%) of the average compensation multiplied by the number of years of creditable service up to twenty years, plus two percent (2.00%) of the average compensation multiplied by the number of years of creditable service in excess of twenty years, for those employees covered after March 31, 1990, the annuity shall be equal to one and one-half (1.50%) percent of the average compensation multiplied by the number of years of creditable service, in no case shall the annuity be less than \$2,400.

Additional information of the System is provided in its financial statements for the year ended June 30, 2012 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.

Note 5 - Lease commitments

The Office rents its facilities through operating lease agreements in which the latest expires in 2013. Rent expense under such lease agreements for the year ended June 30, 2012 amounted to \$2,226,858. Future minimum lease payments as of June 30 are as follows:

2013	\$ 2,194,846
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Note 6 - Legislative appropriations

The Office's principal source of revenue is legislative appropriations from the Commonwealth of Puerto Rico. Appropriations are for general operating purposes of the Office.

Note 7 - Contingencies

The Office is defendant in a lawsuit pending in court. As established by the laws of Puerto Rico, the Department of Justice of the Commonwealth of Puerto Rico represents the Office in any litigation. As established by law, any unfavorable outcome against the Office will be settled by the Commonwealth of Puerto Rico and not from the Office itself. Accordingly, the Office does not recognize any accrual for any unfavorable outcome in the accompanying financial statements.

Note 8 - Compensated absences

Long-term liability activity for the year ended June 30, 2012 was as follows:

	Beginning balance 06/30/11	Accumulated balance	Used balance	Ending balance 06/30/12	Due within one year	Long-term portion
Compensated absences	\$ 9,624,732	\$ 4,613,537	\$ 4,740,099	\$ 9,498,170	\$ 2,768,122	\$ 6,730,048

Note 9 - Subsequent events

On March 19, 2012, the Commonwealth of Puerto Rico approved Law No. 58-2012, effective on July 1, 2012, that will grant to the Office of the Comptroller of Puerto Rico the powers and rights of a fiscal autonomy.



# *Statistical Section*

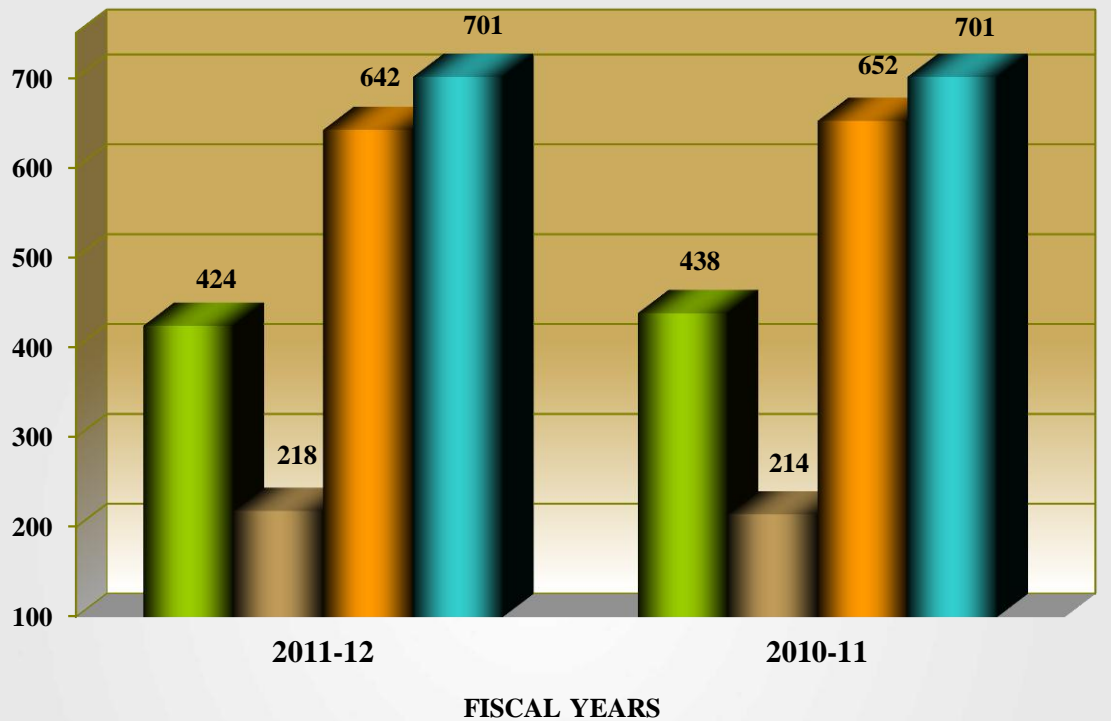
## CHART 1 – OPERATIONS BUDGET

The table and chart that follow indicate the composition of the budget by salaries, meals and travel, professional services, and others, with respect to the total legislative appropriations. In addition, present a comparative picture for two consecutive fiscal years, 2011-12 and 2010-11.

Description	2011-12		2010-11	
	Appropriation	Percent	Appropriation	Percent
Salaries and Payroll Related Costs	\$34,869,526	81.0	\$34,740,146	81.0
Meals and Travel	1,717,825	4.0	1,697,461	4.0
Other Purchased Services	1,160,558	2.7	922,358	2.1
Professional Services	1,271,850	3.0	1,348,999	3.1
Utilities	893,000	2.1	910,632	2.1
Rent	2,238,500	5.2	2,211,189	5.1
Materials and Supplies	532,100	1.2	464,949	1.0
Other Expenditures	238,641	.6	589,290	1.3
Capital Outlays	<u>78,000</u>	<u>0.2</u>	<u>114,976</u>	<u>0.3</u>
<b>Total</b>	<u>\$43,000,000</u>	<u>100</u>	<u>\$43,000,000</u>	<u>100</u>

## CHART 2 – HUMAN CAPITAL

This chart shows the distribution of human capital by auditor and support personnel for fiscal years 2011-12 and 2010-11.



■ Auditors

■ Support Personnel

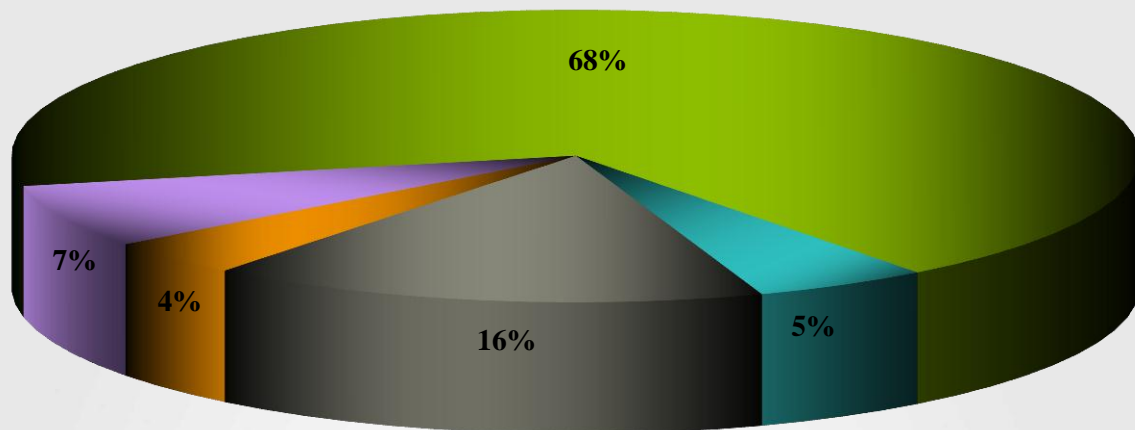
■ Total Personnel

■ Authorized Positions



### CHART 3 – TIME DISTRIBUTION

2011-12



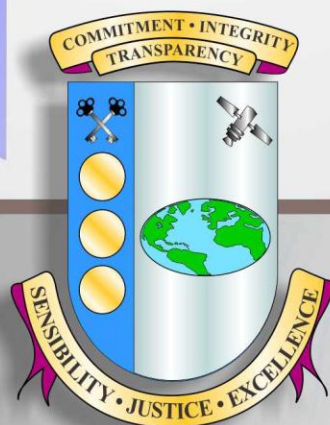
■ Audits   ■ Administrative Work   ■ Office Work   ■ Training   ■ Other Activities

## CHART 4 – MOST IMPORTANT FINDINGS INCLUDED IN THE AUDIT REPORTS

Classification	Quantity
Purchasing, accounts payable and disbursements	445
Planning-Administrative controls	429
General controls-Computers	244
Cash	208
Professional services	195
Building and improvements	168
Personnel	120
Property	105
Revenues and receivables	88
Local Area Network (LAN) controls	44
Insurance	27
Microcomputer controls	19
Application controls	18
Investments	11

# to IMPROVE

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



Comptrollership at your services...



# INTERNAL ANTICORRUPTION *Policy*

Revised on September, 2005.

## 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.

## ETHICS COMMITTEE

This Committee is responsible of giving immediate attention to any notification or allegation of actions that constitute fraud of corruption.

## PREVENTION PHASE

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

**Personnel Responsibility:** All personnel are required to notify our Ethics Committee of the possibility of an action that constitute corruption, which they are aware of.

**Regulation:** Effective internal control 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 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 the Office and providers.
- Office of Government Ethics of Puerto Rico (OGEPR) - both the Comptroller and designated personnel thereby, file financial statements to OGEPR.

## NOTIFICATION OF ACTIONS THAT CONSTITUTE CORRUPTION

Direct communication to the Ethic Committee guarantee:

- Consistency in handling information
- Adequate, objective, and independent investigation
- Protection for coworkers and the interest of the Office.

Depending on the magnitude of the action committed, the Comptroller determines if the case is referred to other government entities, such as:

- Police Department
- Department of Justice
- Office of Government Ethics
- Department of the Treasury
- Federal Agencies

## CONFIDENTIALITY

Laws 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.



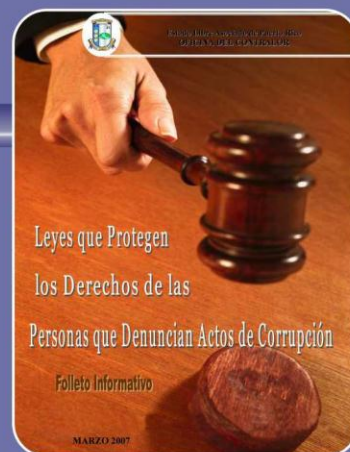
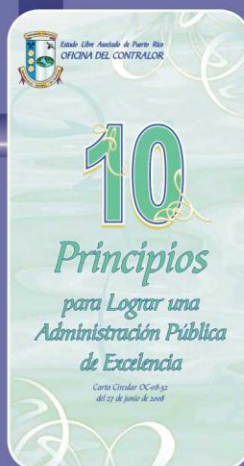
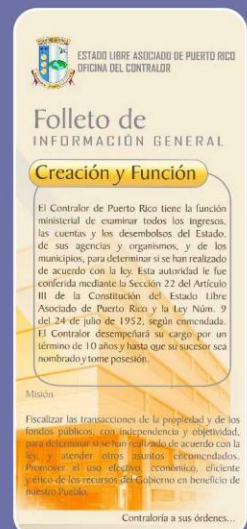
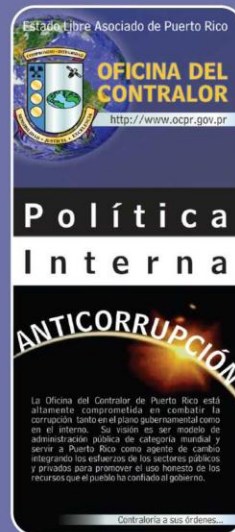
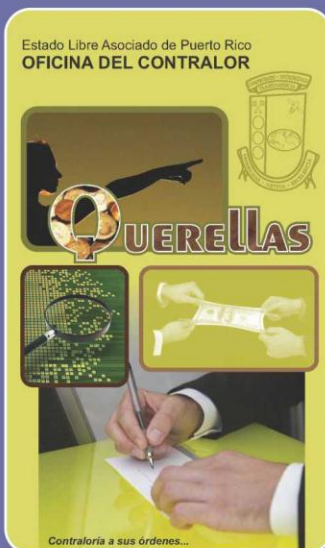
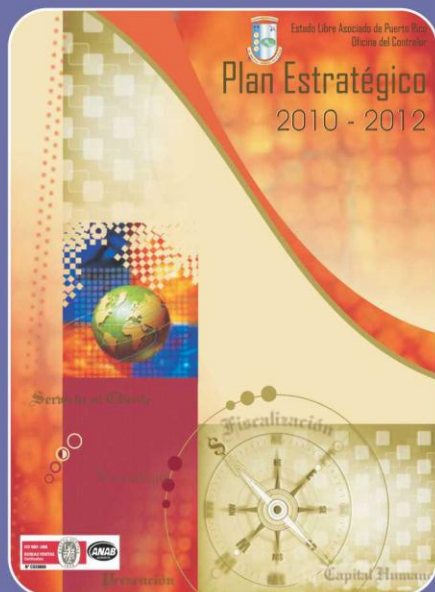


# REFERENCE GUIDES

PUBLISHED



## 10 PRINCIPIOS LEYES QUE PROTEGEN LOS DERECHOS DE LAS PERSONAS QUE DENUNCIAN ACTOS DE CORRUPCIÓN RECOPILACIÓN DE INICIATIVAS LEGISLATIVAS











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COMPTROLLERSHIP AT YOUR SERVICES...

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