



Commonwealth of Puerto Rico • Office of the Comptroller



Comprehensive Annual  
Financial Report for Fiscal  
Year Ended **June 30** **2010**

**TQM** A Total Quality  
Management Organization



# 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.



## 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 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.

We count on your cooperation to improve the oversight function and administration of public funds and property.

Additional information related to the Office of the Comptroller of Puerto Rico is available through the Internet at: [www.ocpr.gov.pr](http://www.ocpr.gov.pr).

In an effort to reduce the cost of printing, if your present address has changed, contact the Director of Finance and General Services Division at (787) 250-3309, Office of the Comptroller, 105 Ponce de León Ave., Hato Rey, Puerto Rico 00919.



Commonwealth of Puerto Rico • Office of the Comptroller



Comprehensive Annual  
Financial Report for Fiscal  
Year Ended **June 30** 2010



# 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 an excellent public administration.

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## Introduction Section

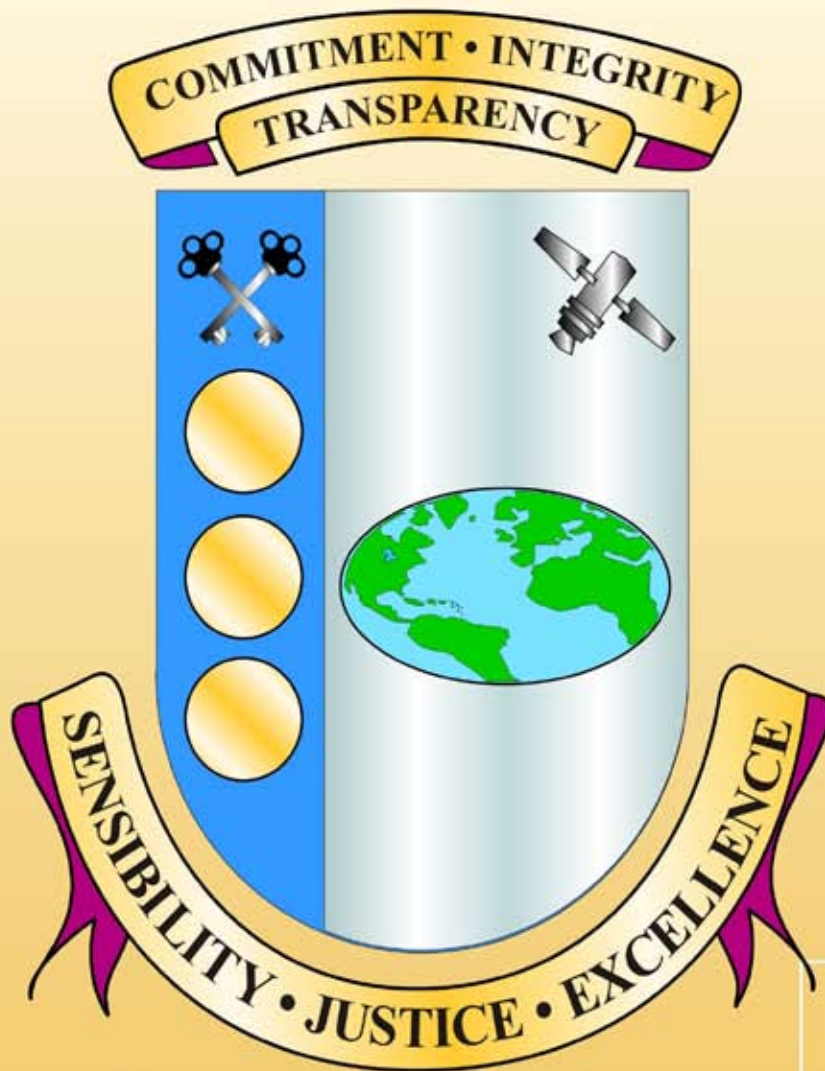
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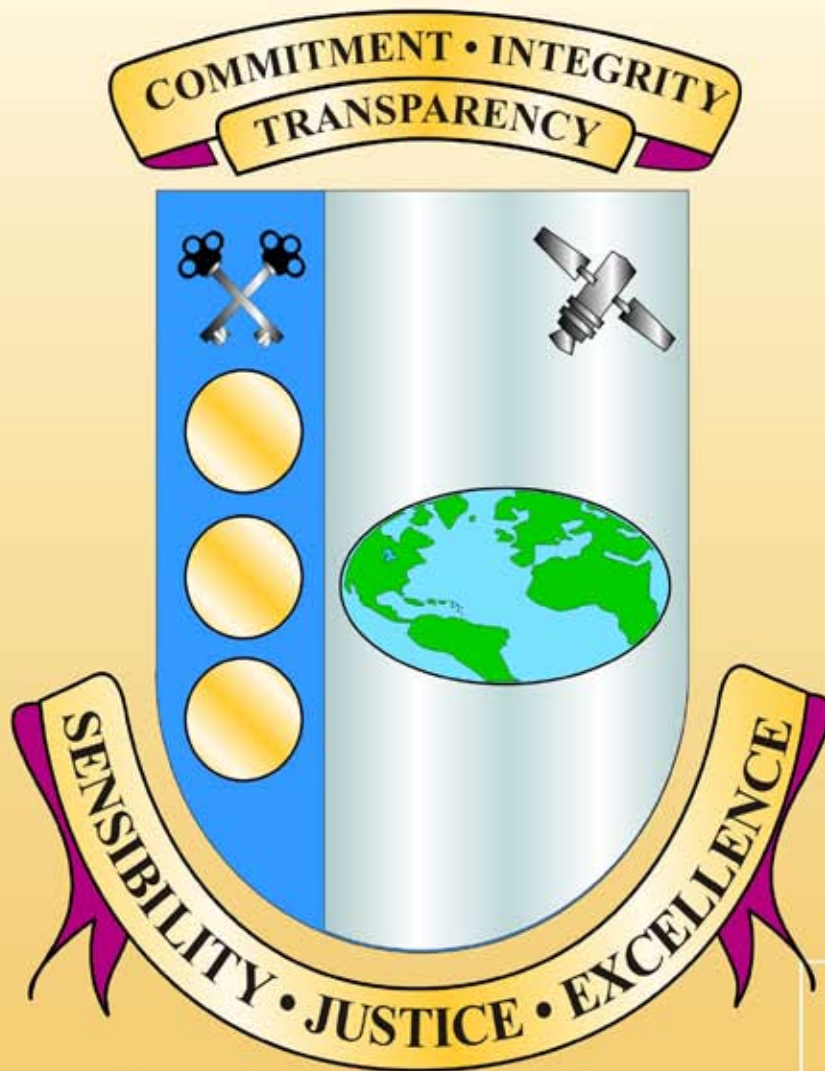





*Section*  
**Introduction**

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Comptrollership at your services...

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November 30, 2010

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 our ministerial duty, it is a pleasure to submit the Comprehensive Annual Financial Report of the Office of the Comptroller of Puerto Rico, hereinafter referred to as the Office, for the fiscal year ended June 30, 2010. The Office 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 Comprehensive Annual Financial Report includes three sections:

**Introduction:** This Section has not been audited and provides general information about the report. It also includes the Comptroller's transmittal letter, a listing of the principal officers, and the organizational chart, as of June 30, 2010.

**Financial:** This Section comprises the Independent Auditors' Report, the financial statements of the Office, Notes to Financial Statements, and the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.

**Statistics:** These data have not been audited. They provide information about finances, economics, and operational matters related to the Office that is generally presented on a comparative basis.

## **General Information about the Commonwealth of Puerto Rico**

### **Geography and Population**

Puerto Rico is the fourth largest of the Caribbean islands and is located approximately 1,600 miles Southeast of New York. It is approximately 100 miles long and 35 miles wide. According to the United States Census Bureau, the population of Puerto Rico was 3,808,610 in 2000. The United States Census Bureau annual estimate of the resident population for Puerto Rico on July 1, 2009 was 3,967,288.

### **Relationship with the United States**

Christopher Columbus discovered Puerto Rico in 1493. Shortly thereafter, the Island was settled by the Spaniards and remained as a Spanish possession for four centuries. The Island came under the sovereignty of the United States with the signing of the Treaty of Paris on December 10, 1898, at the conclusion of the Spanish-American War.

Puerto Ricans became citizens of the United States in 1917, by virtue of the Jones Act, approved by the Congress of the United States. In 1950, the Congress of the United States enacted Public Law 600 in order to allow for an increased self-government for the Island. This Law set forth the political, economic, and fiscal relationship between Puerto Rico and the United States. It also provided for the drafting and adoption of a local constitution on July 25, 1952. Among other things, our Constitution created the position of the Comptroller and defined its role in government.

The Constitution of Puerto Rico was drafted by a Constituent Commission, approved in a special referendum by the people of Puerto Rico, amended and ratified by the United States Congress, and subsequently approved by the President of the United States. The official designation of the Government or body politic has henceforth been “Estado Libre Asociado de Puerto Rico”, which has been called “Commonwealth of Puerto Rico” by the United States Government.

Puerto Rico exercises virtually the same control over its internal affairs as any of the fifty states of the Union. However, it differs from the federated states in its relationship with the Federal Government. The People of Puerto Rico are citizens of the United States; can only vote in local (Puerto Rico) elections, and are represented in Congress by a Resident Commissioner, who has a voice in the House of Representatives and limited voting power.

## **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 October 2, 1997, the Governor of Puerto Rico appointed CPA Manuel Díaz Saldaña as Comptroller, with the advice and consent of the Legislature, as required by the Constitution.

This appointment was for a term of 10 years, but his tenure as Comptroller was extended until June 30, 2010. On May 12, 2010, the undersigned, Yesmín M. Valdivieso, was nominated for the post of Comptroller of the Commonwealth of Puerto Rico by the Governor of Puerto Rico, the Honorable Luis G. Fortuño Buset. After receiving the advice and consent of the Legislature was sworn in as the new Comptroller of Puerto Rico in an activity celebrated on July 1, 2010 in the Center for Professional Development and Special Activities of the Office. Pursuant to the provisions of Section 22, Article III of 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 Office had divided all the government entities of the Executive, Legislative, and Judicial branches, as of June 30, 2010, into 2,174 units for auditing or examination purposes. This figure includes departments, agencies, public corporations, municipalities, and 1,527 community schools.

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 findings fall under two main categories:

Primary: Serious violations of law and applicable regulations are considered primary violations. These include: errors, irregularities of material importance related to falsification, embezzlement, misapplication of accounting principles, and relevant legal dispositions, mathematical errors, or misinterpretation of facts.

Secondary: Inconsequential omissions or errors.

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

## **Official Seal and Shield**

A new seal and shield were adopted during fiscal year 2009-10. The silver field represents the integrity, firmness, and vigilance of the Office in our mission to oversee the transactions of public funds and property, with independence and objectivity, to ascertain that they have been carried out in accordance with the law. The terrestrial globe means that we are part of a world in constant evolution and improvement. This is an essential component of our organizational vision, to be a world-class model for public office. The satellite represents the era of information technology systems and telecommunications, essential instruments for a leading role position in auditing techniques, and much needed to achieve a sophisticated infrastructure for optimum quality services. The sky-blue color within the left partition represents loyalty and truth, essential values present in public service. The two keys on top mean fidelity, security, and discretion in the custody of the public funds, represented by the golden bezants.



## Strategic Plan

The Office operates according to a Strategic Plan and an Annual Operations Plan. The Strategic Plan is divided into five Focal Areas, 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 Office.

During fiscal year 2009-10 we have attained significant goals using the managerial philosophy of Total Quality Management 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 the goals we summarize henceforth:

### Oversight

1. Two hundred and twenty-two (222) reports were published during the fiscal year. Among the most important reports are:
  - a. Special Reports DB-10-10, DB-10-11, DB-10-12, CP-10-08, CP-10-09, M-10-24, and DR-10-04, dated November 25, 2009, concerning a study of costs incurred due to dismissal, disciplinary measures and other personnel transactions taken for political reasons against officials and employees of the: Executive, Legislative and Judicial Branches; Public Corporations; Municipalities and Municipal Consortiums; and the Special Permanent Commission of the Public Service Retirement System, respectively.
  - b. Special Report DE-10-11, dated October 26, 2009, concerning the results of the tenth evaluation of sections of the Property Registry of Puerto Rico on the effectiveness of their role.
  - c. Special Reports DA-10-29, DB-10-22, DB-10-23, CP-10-27, CP-10-28, M-10-57, M-10-58, DR-10-05, and DR-10-06, dated May 6, 2010, concerning the third evaluation performed on the implementation of measures to improve the public administration and the Anticorruption and Prevention Program of the: Executive, Judicial and Legislative Branches; System and Central Administration of the University of Puerto Rico; Public Corporations; Municipal Consortiums and Municipalities; Special Permanent Commission of the Public Service Retirement System; and the University of Puerto Rico Retirement System, respectively.
  - d. Special Reports DB-10-24 and DB-10-25, dated May 6, 2010, concerning the fourth evaluation performed on the implementation of measures to improve the public administration and the Anticorruption and Prevention Program of the: members of the Senate and House of Representatives, respectively.

- e. Special Reports DA-10-31, DB-10-28, DB-10-29, CP-10-31, CP-10-32, M-10-70, and DR-10-07, dated June 7, 2010, concerning the results of the study on the disbursements made through debt recognition and similar documents in the Executive, Judicial and Legislative Branches; Public Corporations; System and Central Administration of the University of Puerto Rico; Municipalities, Municipal Consortiums and Corporations; Retirement Systems and the Special Permanent Commission of the Public Service Retirement System, respectively.
2. Continued with the implementation and improvement of the TeamMate System, an electronic program designed to optimize the audit function and reduce the use of paper.
3. Continued our efforts to complete a study on the misuse of public funds and property. For the first time ever, Puerto Rico will benefit with this kind of study in the government sector. We continued our efforts gathering information and celebrated meetings with professors from the University of Puerto Rico. We expect to complete this study by the end of 2010.

## **Prevention**

1. Professional guidance concerning sound public administration were offered to 3,799 government officials and employees. These included internal auditors from the state government agencies, public corporations and municipalities, and 2,007 members of the public schools councils in compliance with Law No. 77 of April 13, 2006, as amended. It also includes lectures offered to 35 officials on the proper use of public property and funds in compliance with Law No. 222 of August 6, 1999, as amended, and 210 executives appointed by the Governor of Puerto Rico in compliance with Law No. 190 of September 1, 2006.
2. Participated in national and international meetings and conferences related to our investigative and preventive functions, among them: TeamMate Forum, the Forum of Government Auditors, and the American Society for Training and Development.
3. Participated in the XIX General Assembly of the *Organización Latinoamericana y del Caribe de Entidades Fiscalizadoras Superiores* (OLACEFS) at Asunción, Paraguay. The Assembly approved our proposal for the discussion of the technical topic Alternatives for the Traditional Oversight Function. This was presented in the Assembly celebrated on July 2010 in Guatemala.
4. Thirty eight circular letters were issued during the fiscal year. Among the most important letters are:
  - a. Circular Letter OC-10-03 dated July 23, 2009 – Payments Resolutions, Debt Recognition and other similar documents.
  - b. Circular Letter OC-10-04 dated July 30, 2009 – Payment of fines and

embargoes due to delays in the payments of debts between government agencies for employer's contributions, insurance premiums or salary retention not remitted to the corresponding agencies.

- c. Circular Letter OC-10-13 dated December 1, 2009 – Use of credit cards in the Government of Puerto Rico.
  - d. Circular Letter OC-10-25 dated February 11, 2010 – Legal Orientations Requests.
  - e. Circular Letters OC-10-31, OC-10-34, OC-10-35, OC-10-36, and OC-10-37, dated June 29, 2010, concerning the criteria and certification of the fourth evaluation on the implementation of measures to improve the public administration and the Anticorruption and Prevention Program of the: Municipalities and Municipal Consortiums; Executive Branch and Courts Administration Office; Units of the University of Puerto Rico and its Retirement System; Public Corporations, Executive Branch Retirement Systems, and Central Administration of the University of Puerto Rico, respectively.
5. Published the following booklets and informative documents:
- a. Strategic Plan 2010-2012, February 2010.
  - b. Compilation of Legislative Initiatives Directed to Strengthen Public Administration and Facilitate the Supervision and Investigation Related to Property and Public Funds from 1952 to December 31, 2009 – May, 2010.

## Human Capital

- 1. Everyone in the Office were trained 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, including the Productivity Bonus and the government contribution for the Medical plan premium, were maintained to retain and attract highly qualified personnel. Also, a program known as **Comptrollership in Shape** (*Contraloría en Forma*) was promoted to help fellow-workers maintain a good physical condition. Lectures were offered to interested fellow-workers and their immediate families, through a program known as **Strengthening the Family** (*Fortalecimiento Familiar*).
- 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 donation of toys for children of limited economic resources, and collection and delivery of primary needed articles to *Iniciativa Comunitaria*, a community based entity that offers various services to the homeless.



5. The Office continued providing services as established in the Personnel Support Program (**“Programa de Ayuda al Personal”**), 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.

## **Technology**

1. Evaluated, implemented, and improved 28 projects, processes and programs related to technology. Some of the most important were:
  - a. Implementation of web versions of the Contracts Registry and the Corrective Action Plans.
  - b. Improvements of TeamMate software.
  - c. Segmentation of network infrastructure.

## **Customer Service**

1. The establishment of the Total Quality Management Philosophy has helped us in the continuous improvement of processes and in the cultural change of the Office environment. This can be attested as follows:
  - a. Increased to 92 percent the implementation of the Process Improvement Team’s recommendations.
  - b. Workplace Environmental Quality Survey was administered to obtain the perception of fellow-workers on the Organizational Environment and Management Skills. The survey results tabulated in December 2009 revealed a score of 84 points for the Organizational Environment and 82 points for the Management Skills on a maximum scale of 100 points.
2. Evaluated the results of surveys to measure customer satisfaction of audited entities, government referral entities, and the general public.
3. The Office, since created, has never had its own office building or adequate facilities that may enable a more efficient operation. It operates from five different rented locations dispersed in the area of Hato Rey. Its central offices are located at 105 Ponce de León Avenue, San Juan, Puerto Rico. Law No. 38 of January 10, 1999, authorizes us to acquire, possess, use, and dispose of real property for the location of our offices. Also, the Treasury Commission of the Senate of Puerto Rico proposed Joint Resolution 449 of August 16, 2001, ordering the Lands Administration to transfer without profit and free

from any liens or other encumbrances a plot of land in Hato Rey in which to construct the required building. We received the Resolution for comments on March 4, 2003. The Office endorsed the same; nevertheless, it never became law. All our endeavors have not yet been successful in obtaining the resources needed.

## **Total Quality Management**

### **Seminars/Trainings**

Pursuant to our **Route to Excellence** program, we offered the Basic Total Quality Seminar to 41 newly hired personnel and the Management Training to the top management personnel of the Office.

### **External Seminars**

In order to increase our knowledge in quality management issues and new techniques, personnel of our Total Quality Management Section enrolled on Project Management and Occupational Health and Safety trainings.

### **Improving Processes**

Continued with our commitment to analyze existing processes in our organization, improving them, and identifying the pertaining variables so as to monitor behavior, measure progress, and control the processes. As of June 30, 2010, we had evaluated 100 percent of the 224 processes identified in our organization. Also, the Office met 90 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 9001:2000 series are based on eight principles (all fundamental to good business practice) 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, System Approach to Management, Continual Improvement, Fact Based Decision Making and Mutually Beneficial Supplier Relationships.

On April 27, 2006, Bureau Veritas, a widely recognized certification body in the world, certified the Quality Management System (QMS) of the Office against the 9001:2000 international standards.

On April 16, 2009, Bureau Veritas Certification certified the QMS of the Office against the newly released 9001:2008 international standard. Also, the scope of the certification was modified and extended to include the design and execution of external orientations and training as means of governmental control. On December 2, 2009 and June 29, 2010, 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 Office 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.

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. The Order also requires the Office of Government Ethics to follow up on the findings included in the reports in order to identify any violation of Law No. 12 of July 24, 1985, "Law on Government Ethics". In addition, on November 1, 1990, the Office approved Regulation No. 26 implementing the CAP. This Regulation requires the Treasury Department, the Office of the Commissioner of Municipal Affairs (formerly the Administration of Municipal Services) and the Boards of Directors of Public Corporations to verify that audited entities comply with the CAP by implementing the recommended corrective measures within a given time period. The CAP also provides a mechanism to ensure that cases referred to the Department of Justice are given proper attention.

On June 13, 1998, the Governor issued Administrative Bulletin Number OE-1998-16, superseding Executive Order 5098D. As a result, the Office issued a new Regulation No. 26, effective July 1, 1998. Accordingly, beginning with fiscal year 1998-99, all government entities have 90 days to submit the CAP. The 90 days allowed begin on the first day of the month following the publication of the audit report. The 90-day time span to submit complementary reports begins on the first day of the month following the CAP or a previous complementary report. All government entities are encouraged to delegate responsibility for the CAP on the internal audit units.

By June 30, 2010, the Office had received 959 and evaluated 868 CAPs to ascertain compliance with the recommendations contained in the audit reports. This figure includes initial CAPs and subsequent progress reports. During fiscal year 2008-09 the Office received 1,084 and evaluated 1,104 CAPs. 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, and such determination is appropriately documented and sustained, the Comptroller may excuse them from compliance.

The entire operation of the CAP continues to be reviewed, since an 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 on Contracts of Government Agencies and Municipalities**

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 submit a copy of their contracts, deeds, and amendments to the Office 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 No. 33, issued by the Comptroller on February 27, 1998 and amended on June 20, 2008.

The Office 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 Office received 566 requests for copies during fiscal year 2008-09, and 538 during 2009-10.

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. The Office received 119,584 contracts during fiscal year 2008-09, and 105,198 during 2009-10.

## **Registry of Irregularities Related to Public Funds and Property Informed by Government Entities**

The Office instituted a computerized registry system during the 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.

## **Registry of Privatization**

Law No. 136 of June 7, 2003, as amended by Law No. 71 of July 23, 2007, requires all government entities, including public corporations and municipalities, to submit an annual report of all privatizations of functions, area of administration, or duties of their entities to the Governor, 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 Office 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 No. 103 of May 25, 2006, every agency that received funds from the government's general fund had to submit by December 31, 2006, 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. Such certification should 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. Also, Law No. 103 creates a Job Registry, to be monitored by the Office of the Comptroller, which requires that all agencies and public corporations must report, on a monthly basis, all occupied job posts and vacancies. The registry has been designed by the Office and is available online through the website with the title Job Registry under *Contraloría Digital*.

## Results of Operations

### Budget

The budget assigned to the Office for fiscal year 2009-10 was \$43,000,000, which represents the same amount of the budget for the previous fiscal year. The Office spent and encumbered \$41,614,499 leaving a balance not reserved of \$1,385,501. 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)

However, when the Independent Auditors' Report was issued, the Treasury Department of the Commonwealth of Puerto Rico had not accounted this unreserved fund balance in the PRIFAS System, on behalf of the Office. Normally, the Department accounts the unreserved fund balance at the beginning of September of next fiscal year.

### Reports Issued

During fiscal year 2009-10, the Office issued 222 reports. These reports involved audits and special projects that revealed administrative deficiencies, irregularities, or illegal acts in the transactions involving public funds and property. By June 30, 2010, the aforementioned reports had been sent to the Governor, the President of the Senate, and the Speaker of the House of Representatives and published in our website. (Charts 2 and 3)

### Human Capital

As of June 30, 2010, the Office had 664 full time occupied positions or 95 percent out of 701 authorized positions; 450 (68%) were auditors and 214 (32%) were support personnel. Support personnel consist of legal counsels, administrative staff, and other professionals. (Chart 4) During 2009-10, 14 auditors and 10 support personnel resigned or retired, while 40 auditors and 5 support personnel were hired. In addition, the Office hired 10 temporary employees which participated in the Summer Internship Program. A grand total of 1,201,585 hours were dedicated to audits, administrative and office work, training, compensated absences, and other activities. (Chart 5)

## **Training**

The Office has established an 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. In case of the auditors of the Information Technology Audit Division, 20 hours have to be in computer information system.

During 2009-10, 35,092 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 Office 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 Office has an Audit Committee to strengthen the independence, integrity, and trust on the Office's internal auditing activity and the transparency in its fiscal processes and transactions. As per regulation, the members of the Committee are distinguished professionals in the private sector.

### **Budgetary Controls**

The Office 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, the management of the Office continue to meet its responsibility for sound financial administration, following the norms of austerity and modesty.

### **Independent Audit**

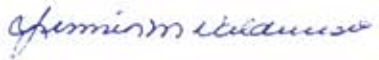
Pannell Kerr Forster, LLP, an independent certified public accounting firm, performed the audit of the financial statements of the Office for fiscal year ended June 30, 2010. The Independent Auditors' Report is included in the Financial Section. The accounting firm performed the audit on time as expected, and the Office received the certified financial statements on October 21, 2010.

## Financial Reporting

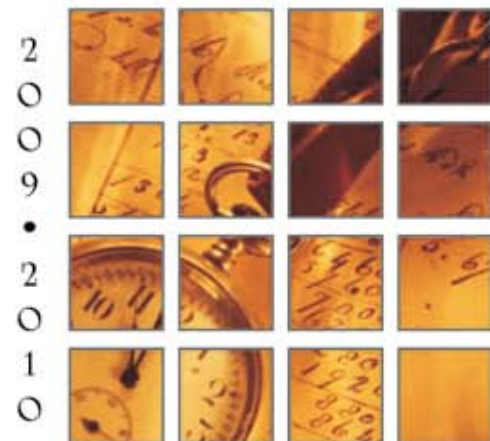
The Office complies with financial reporting requirements.

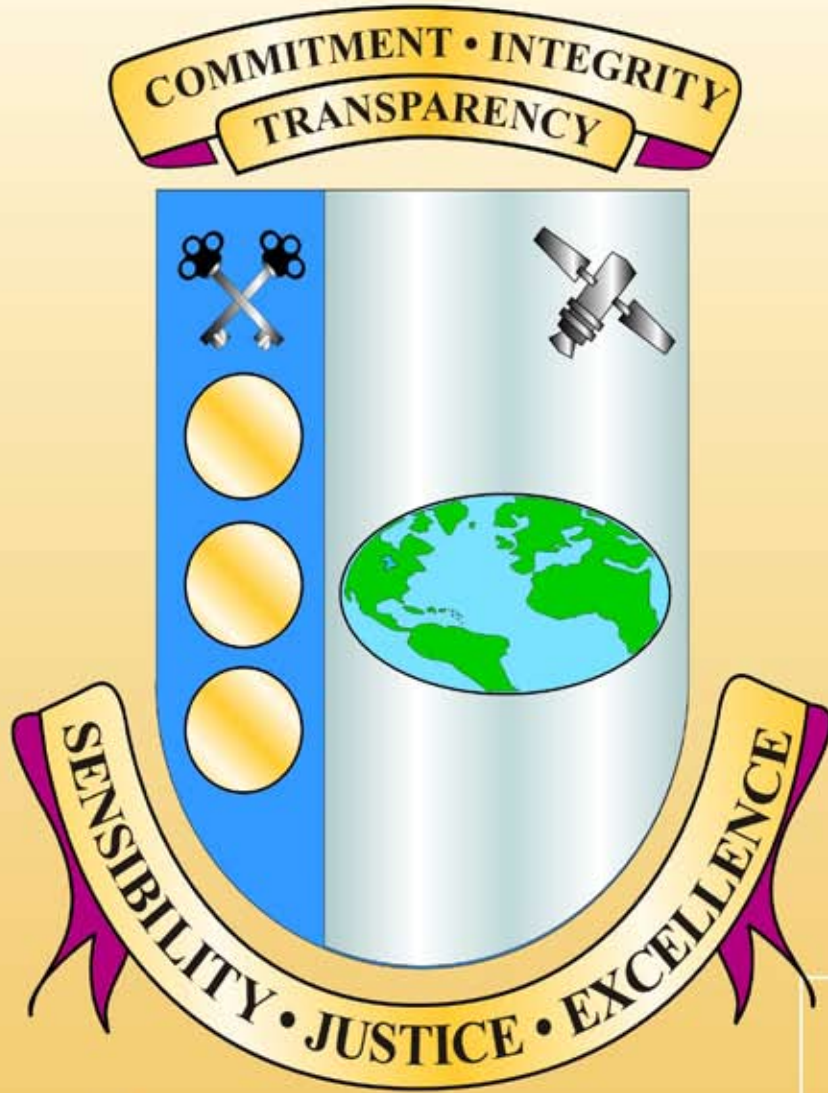
**We count on your cooperation to improve the oversight function and the administration of public funds and property.**

Respectfully submitted,



Yesmín M. Valdivieso





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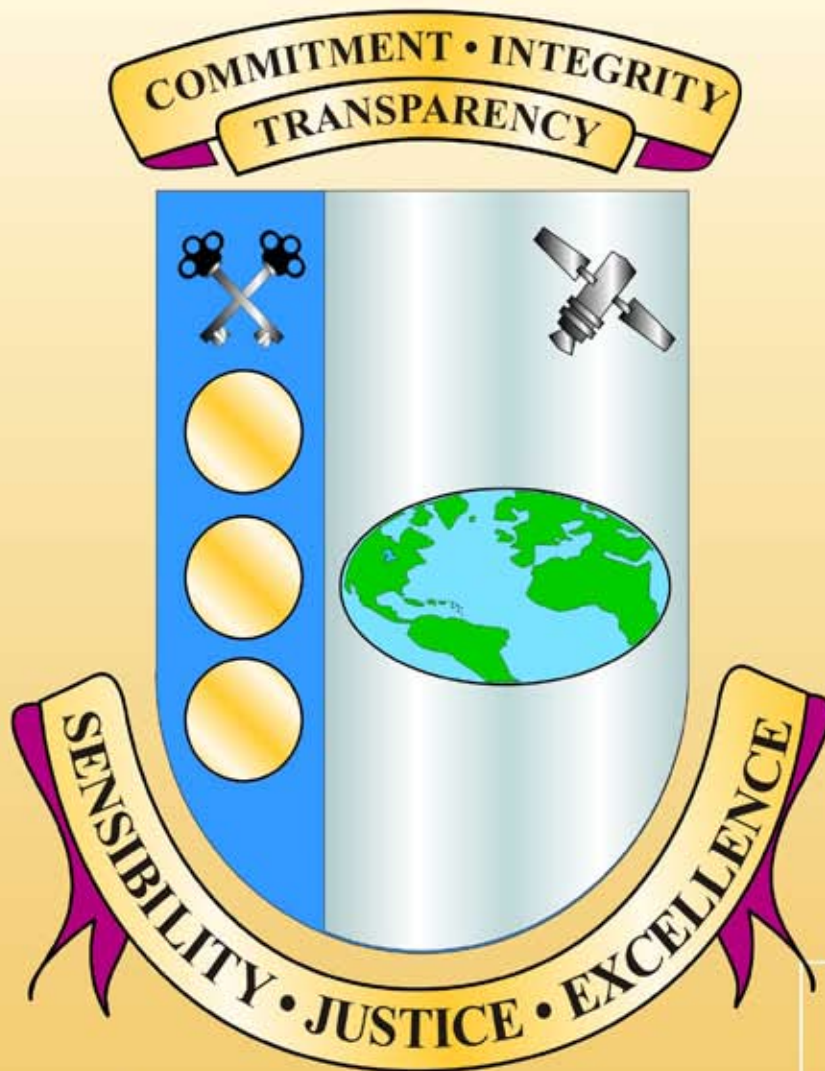
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**MANUEL DÍAZ SALDAÑA, CPA, CFE**  
Comptroller

**NATANAEL ARROYO CRUZ, CFE, CICA**  
Deputy Comptroller

**JAMIEL MIRANDA MATOS, PE, ESQ**  
Assistant Comptroller  
Strategic Planning, TQM,  
and Administration Area

**NILSA T. AÑESES LOPERENA, ESQ, CFE**  
Assistant Comptroller  
Legal Affairs Area

**YAMIRA PÉREZ ORTIZ, CPA, CFE, FCPA**  
Assistant Comptroller  
Audit Affairs and  
Professional Development Area

**EDGARDO CASTRO RIVERA, CFE**  
Assistant Comptroller  
Anti-Corruption Strategies Area

**HÉCTOR A. RIVAS ORTIZ, CPA, CFE, FCPA**  
Executive Aide  
Reports Reviewer

**MYRIAM J. FLORES SANTIAGO, CFE**  
Internal Audit Director

**LISANDRA RIVERA RIVERA, MAC**  
Press Officer

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Director, Departments and Agencies  
Audit Division "A"

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Director, Departments and Agencies  
Audit Division "B"

**ELIUT REYES MUÑOZ**  
Director, Departments and Agencies  
Audit Division "E"

**LOURDES DÍAZ VALCÁRCEL, CFE, CISA**  
Director, Information Technology  
Audit Division

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Director, Municipalities  
Audit Division

**JULIO J. DÁVILA BRAVO, CFE, CFS**  
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**VACANT**  
Director, Human Capital Division

**MARICELI FIGUEROA SAMBOLÍN, MBE**  
Director, Information

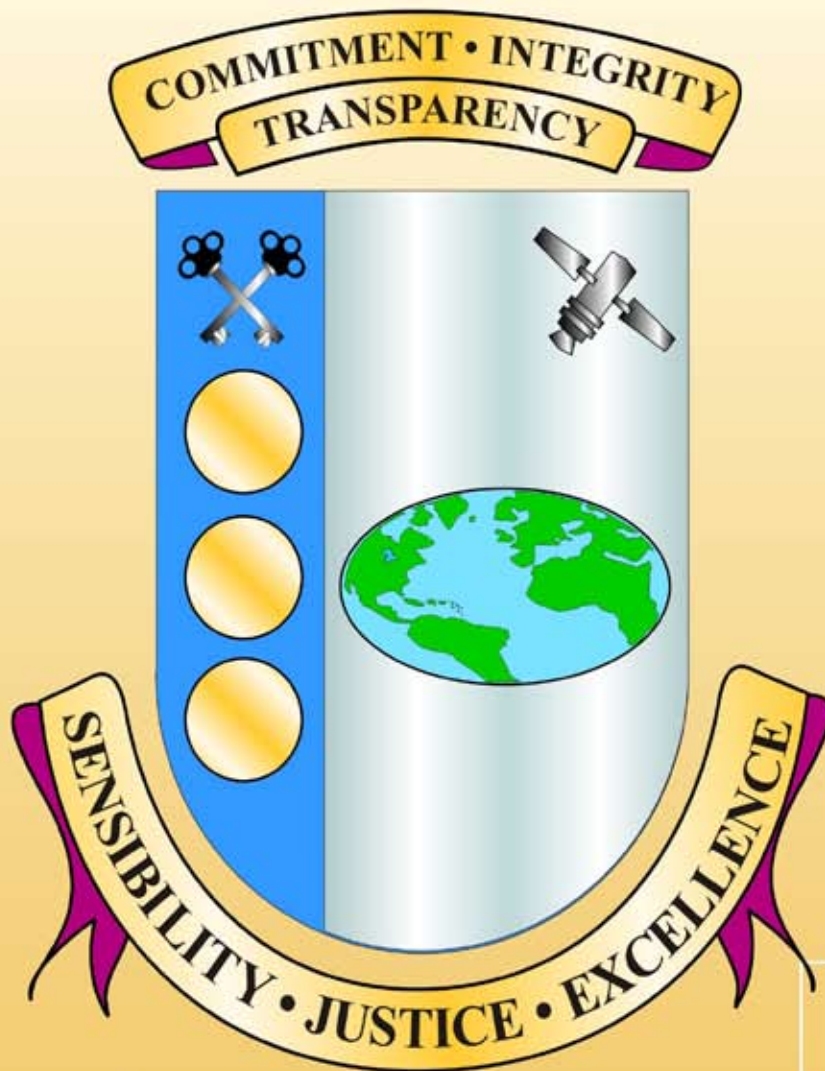
**RAFAEL GUSTAVO PÉREZ, MBA, CISSP, PE, PMP**  
Director, Information Systems Division

**ABELARDO CASANOVA HERNÁNDEZ, ESQ**  
Director, Legal Division

**MARA E. REYES ALFONSO, CFE, CGAP**  
Director, Professional Development  
and Special Activities Center

**AURORA BARALT DE JIMÉNEZ, MCR**  
Director, Personnel Support Program





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Comptrollership at your services...

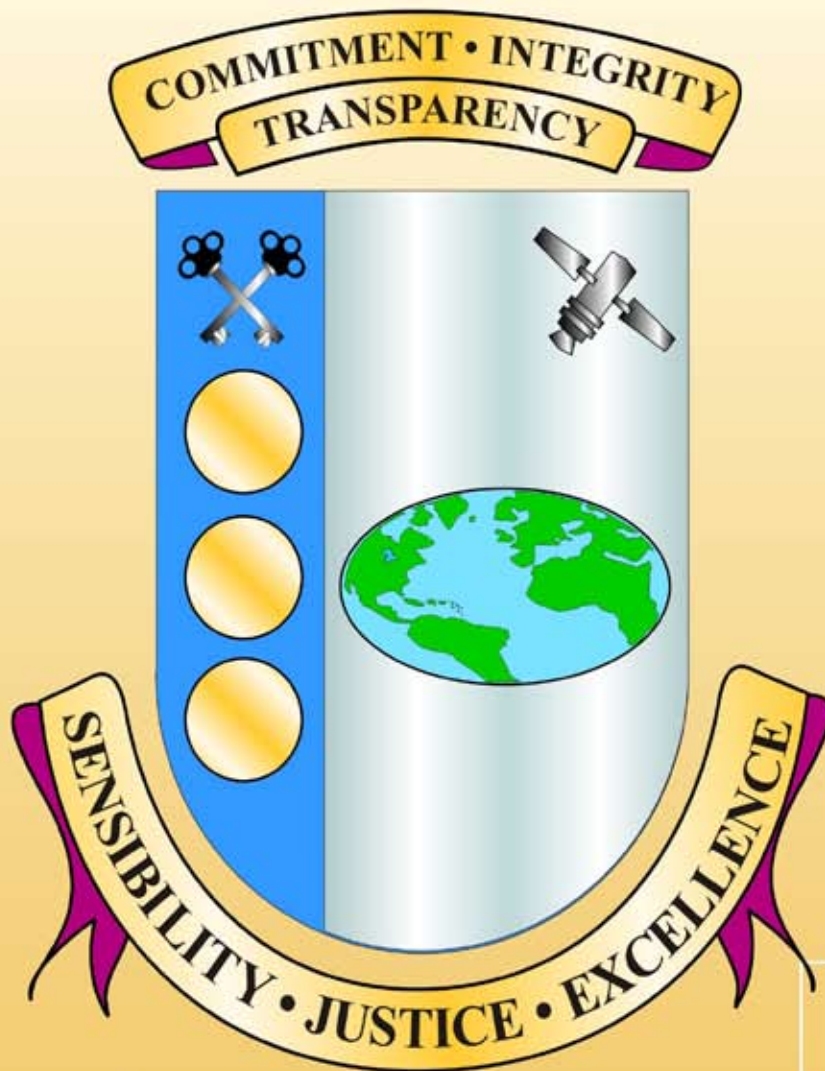
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# Organizational Chart

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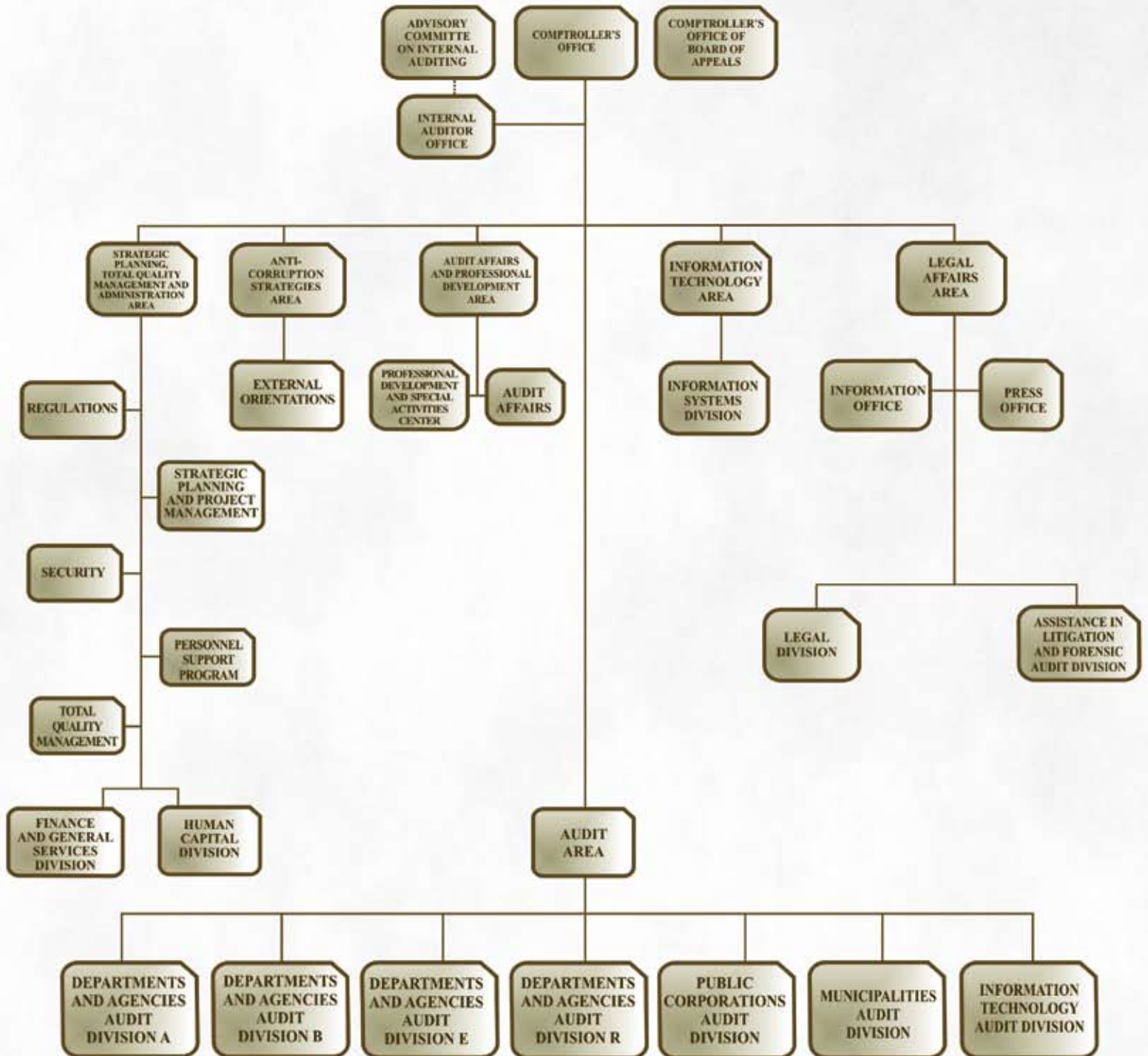


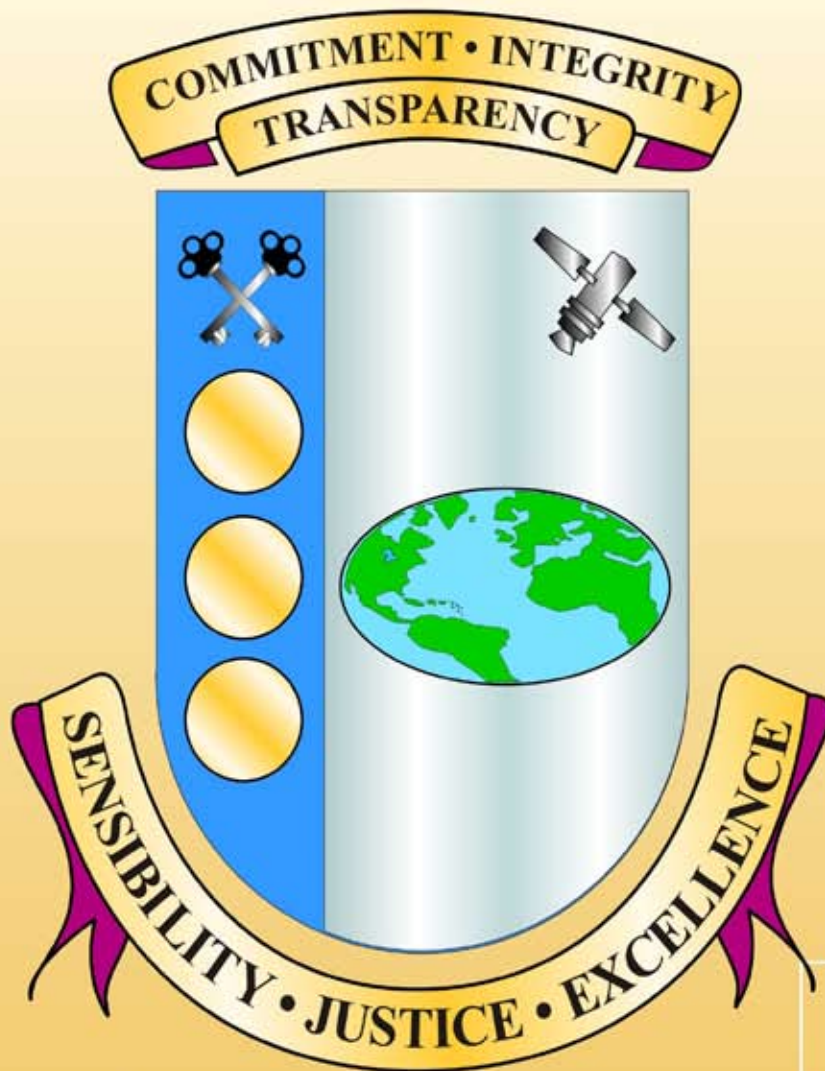


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Comptrollership at your services...

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# Office of the Comptroller Organizational Chart





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Comptrollership at your services...

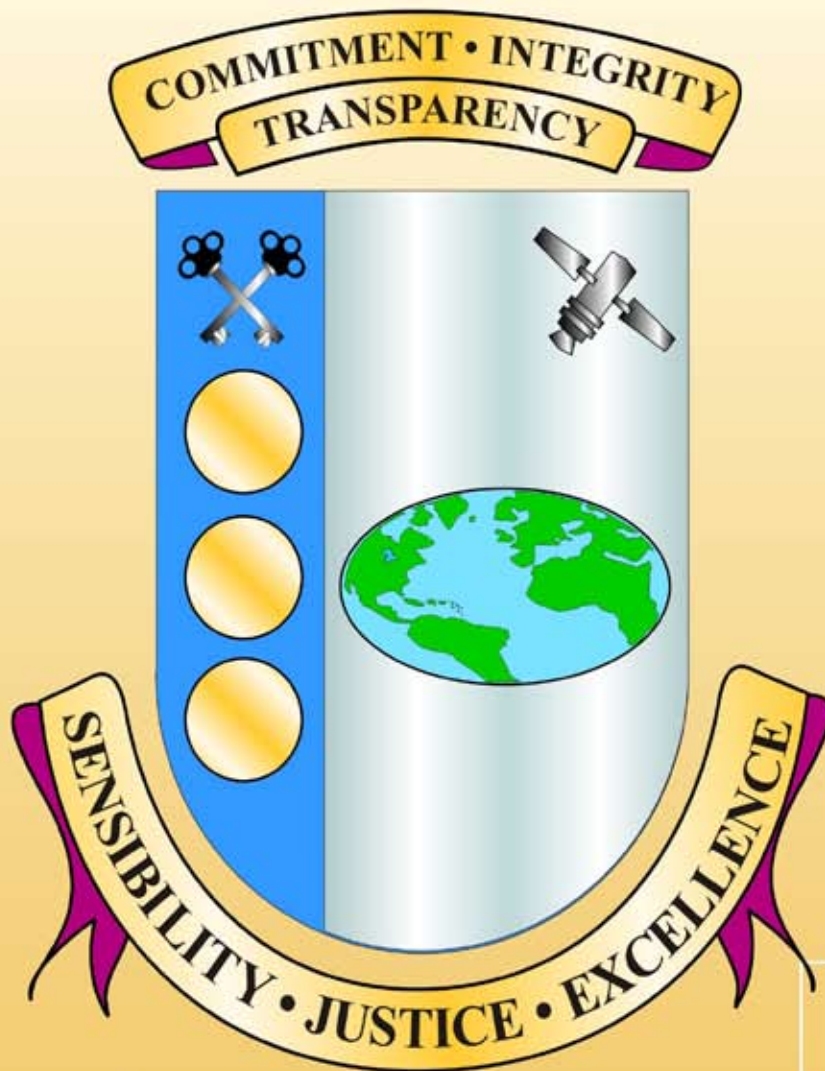
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*Financial*  
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**COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER**

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

**FISCAL YEAR ENDED  
JUNE 30, 2010**

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## INDEPENDENT AUDITORS' REPORT

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

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, 2010, 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Office is for financial reporting purposes a part of the Commonwealth of Puerto Rico. The accompanying financial statements present only the Office of the Comptroller's financial data and are not intended to present the financial position of the Commonwealth of Puerto Rico and the results of its operations in conformity with accounting principles generally accepted in the United States of America.

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 at June 30, 2010, and the changes in financial position for the year then ended, 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  
Page 2

The Management's Discussion and Analysis and the Statement of Revenues, Expenditures and Changes in Fund Balances - Budgetary Basis on pages 3 to 7 and 14 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2010, on our consideration of the Office of the Comptroller's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts 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.



*PKF, LLP*

License No. 22  
Expires December 1, 2010

September 20, 2010

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Management's Discussion and Analysis  
June 30, 2010

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, 2010.

Financial Highlights

- The total liabilities of the Office at the close of the fiscal year ended June 30, 2010 amounted to \$10,483,770 comprised of the accrual required under GASB No. 34 for vacations and sick leave in the amount of \$9,823,792 and \$659,978 due to creditors. The liabilities exceeded its assets by \$7,588,558 (net deficit) 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 decreased by \$191,038. This decrease is mostly attributable to the cash held with fiscal agent which at the end of June 30, 2010 was six percent (6%) lower than the related amount at June 30, 2009.
- The final Budget of the Office for the fiscal year 2009-2010 was \$43,000,000.

The Office achieved an economy of \$1,385,501 in its management of the general fund budget for the fiscal year 2009-2010.

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 the Financial Statements. This report also contains other supplementary information, in addition to the basic financial statements themselves.

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 (net deficit). Over time, increases or decreases in net assets or net 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, 2010

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 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, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well 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 funds 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 Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental facilities activities.

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.

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Management's Discussion and Analysis (continued)  
June 30, 2010

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 21 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 decrease by \$45,427, over the course of this fiscal year's operations. The Office's Net Assets include investment in property and equipment for \$1,869,848 and a deficit of \$7,588,558. The following is a Condensed Statement of Net Deficit for fiscal years ended June 30, 2010 and 2009.

Condensed Statement of Net Deficit

	2010	2009	Change
Current assets	\$ 2,895,212	\$ 3,043,932	\$ (148,720)
Capital assets, net	1,869,848	1,912,166	(42,318)
Total assets	<u>4,765,060</u>	<u>4,956,098</u>	<u>(191,038)</u>
Current liabilities	1,289,601	1,435,624	(146,023)
Long-term liabilities	9,194,169	9,284,611	(90,442)
Total liabilities	<u>10,483,770</u>	<u>10,720,235</u>	<u>(236,465)</u>
Net Deficit			
Invested in capital assets	1,869,848	1,912,166	(42,318)
Deficit	<u>(7,588,558)</u>	<u>(7,676,303)</u>	<u>87,745</u>
Total Net Deficit	<u>\$ (5,718,710)</u>	<u>\$ (5,764,137)</u>	<u>\$ 45,427</u>

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, 2010, amounts to \$1,869,848. The total invested in the Office of the Comptroller's capital assets for the fiscal year was approximately four (4%) percent of the assigned budget.

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

- The acquisition of several electronic equipments at a cost of \$470,854.

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

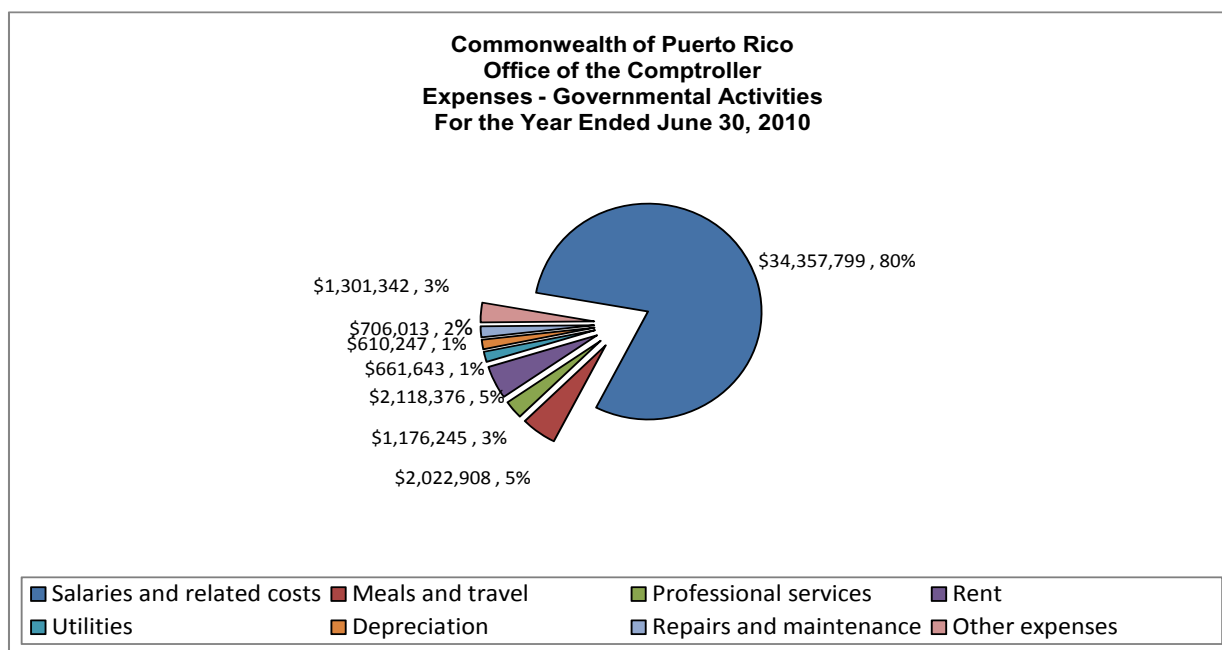
Management's Discussion and Analysis (continued)  
June 30, 2010

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, 2010.

	2010	2009	Change	%
Revenue:				
State appropriation	\$ 43,000,000	\$ 43,000,000	\$ -	-
Expenses	(42,954,573)	(42,590,296)	(364,277)	0.9%
Change in Net Deficit	<u>\$ 45,427</u>	<u>\$ 409,704</u>	<u>\$ (364,277)</u>	88.9%

The following chart presents the expenses incurred by the Office during the fiscal year ended June 30, 2010.



The Office's major expense is related to salaries, benefits and payroll taxes which represent the 80% of total expenses incurred during fiscal year ended June 30, 2010.

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Management's Discussion and Analysis (continued)  
June 30, 2010

General Fund Budgetary Highlights

The 2009-2010 General Fund Budget was \$43,000,000 and actual expending was \$41,614,499. Total expenditures represented 96.8% of total budget availability for the fiscal year. The Office's expenditure rate presents a similar rate when compared to prior year performance (97.1%).

The following table summarizes the budget expenditures and unexpended balance for the fiscal years ended June 30, 2010 and 2009.

	<u>Budget and Expenditures Comparison</u>	
	<u>2010</u>	<u>2009</u>
Revenue		
State appropriation	\$ 43,000,000	\$ 43,000,000
Expenditures	<u>41,614,499</u>	<u>41,738,269</u>
Unexpended balance	<u>\$ 1,385,501</u>	<u>\$ 1,261,731</u>
Expenditure rate	96.8%	97.1%

The operational results of the last two years, presents a savings on the assigned budget amounting to \$1,385,501 and \$1,261,731.

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 2010-2011 fiscal year budget on July 1, 2010. The legislative appropriations for the fiscal year 2011 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 General Services 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  
June 30, 2010

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets:	
Cash held with fiscal agent	\$ 2,844,970
Accounts receivable	<u>50,242</u>
Total current assets	2,895,212
Noncurrent assets:	
Capital assets, net	<u>1,869,848</u>
Total assets	<u>4,765,060</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and accrued liabilities	659,978
Accrued compensated absences, current	<u>629,623</u>
Total current liabilities	1,289,601
Noncurrent liabilities:	
Accrued compensated absences	<u>9,194,169</u>
Total liabilities	<u>10,483,770</u>
<b>NET DEFICIT</b>	
Invested in capital assets	1,869,848
Deficit	<u>(7,588,558)</u>
Total net deficit	<u>(5,718,710)</u>
Total liabilities and net deficit	<u>\$ 4,765,060</u>

See notes to financial statements



COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Statement of Activities  
For the Year Ended June 30, 2010

Expenses	
Salaries and other payroll related costs	\$ 34,357,799
Meals and travel	2,022,908
Professional services	1,176,245
Insurance	35,994
Rent	2,118,376
Utilities	661,643
Non-capitalizable equipment	93,712
Depreciation	610,247
Materials and supplies	199,358
Repairs and maintenance	706,013
Trainings and continuing professional education	214,355
Suscriptions and memberships	167,660
Security services	284,558
Printing services	59,264
Postage	61,138
Miscellaneous	177,258
Loss on disposition of assets	8,045
	<u>42,954,573</u>
Revenues	
State Appropriation	<u>43,000,000</u>
Change in net deficit	45,427
Net deficit at beginning of year	<u>(5,764,137)</u>
Net deficit at end of year	<u>\$ (5,718,710)</u>

See notes to financial statements

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Balance Sheet-Governmental Fund  
June 30, 2010

ASSETS

Cash held with fiscal agent	\$ 2,844,970
Accounts receivable	<u>50,242</u>
Total assets	<u>2,895,212</u>

LIABILITIES

Accounts payable and accrued liabilities	<u>659,978</u>
--	----------------

FUND BALANCE

Reserved for encumbrances	181,865
Unreserved	<u>2,053,369</u>
Total fund balance	<u>2,235,234</u>
Total liabilities and fund balance	<u>\$ 2,895,212</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, 2010

Total fund balance per balance sheet-governmental fund	<u>\$ 2,235,234</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	1,869,848
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>(9,823,792)</u>
	<u>(7,953,944)</u>
Total net deficit per statement of net deficit	<u>\$ (5,718,710)</u>

See notes to financial statements

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Statement of Revenues, Expenditures and Changes in Fund Balance  
Governmental Fund  
Year Ended June 30, 2010

Revenues

State appropriation	<u>\$ 43,000,000</u>
---------------------	----------------------

Expenditures

Salaries and payroll related costs	34,294,846
Meals and travel	2,022,908
Professional services	1,176,245
Insurance	35,994
Rent	2,118,376
Non-capitalizable equipment	93,712
Utilities	661,643
Capital outlays	575,974
Materials and supplies	199,358
Repairs and maintenance	706,013
Trainings and continued professional education	214,355
Suscriptions and memberships	167,660
Security services	284,558
Printing services	59,264
Postage	61,138
Miscellaneous	<u>177,258</u>
Total Expenditures	<u>42,849,302</u>

Excess of revenues over expenditures	150,698
--------------------------------------	---------

Fund balance at beginning of year	<u>2,084,536</u>
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Fund balance at end of year	<u><u>\$ 2,235,234</u></u>
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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 to the Statement of Activities - Governmental Fund

For the Year Ended June 30, 2010

Excess of revenues over expenditures	<u>\$ 150,698</u>
Amounts reported in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(42,318)
Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund.	<u>(62,953)</u> <u>(105,271)</u>
Change in net deficit	<u>\$ 45,427</u>

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, 2010

	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	35,273,000	34,197,092	33,808,055	389,037
Facilities and payments of public services	969,000	869,000	661,643	207,357
Purchased services	2,744,000	2,814,377	2,765,291	49,086
Transportation expenditures	1,518,000	1,906,241	1,812,913	93,328
Professional services	899,000	1,592,290	1,185,084	407,206
Other expenditures	1,115,000	875,000	837,691	37,309
Materials and supplies	461,000	521,000	431,160	89,840
Capital outlays	-	194,000	93,237	100,763
Announcements and media publications approved by Law	21,000	31,000	19,425	11,575
	43,000,000	43,000,000	41,614,499	1,385,501
Net Change in fund balance	\$ -	\$ -	\$ 1,385,501	\$ 1,385,501

See notes to financial statements

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Notes to Financial Statements  
June 30, 2010

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 qualifies.

The Commonwealth of Puerto Rico was constituted on July 25, 1952, under 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, 2010

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, 2010

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 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	5-10
Electronic equipment for data processing	5
Furniture	10
Vehicles	10

Vacation and Sick Leave

The employees of the Office are granted 30 days of vacation and 18 days of sick leave annually. Vacation and sick leave may be accumulated in excess of the maximum permitted of 60 and 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 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, 2010

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, consisted of a Legislative Appropriation, by resolution, for the year ended June 30, 2010 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 Revenue, Expenditures and Changes in Fund Balance-Budget and Actual	\$ 41,614,499
Plus prior year encumbrances recorded as expenditures during current year under the GAAP basis	1,319,182
Less current year encumbrances not recorded as expenditures under the modified accrual basis	<u>(84,379)</u>
Expenditures according to the Statement of Governmental Fund Revenue, Expenditures and Changes in Fund Balance	<u>\$ 42,849,302</u>



COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Notes to Financial Statements (continued)  
June 30, 2010

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 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, 2010, are composed of the following:

<u>Fiscal Year</u>	<u>Obligated Funds</u>	<u>Non-Obligated Funds</u>
2007-2008	\$ 49,711	\$ 36,098
2008-2009	47,775	631,770
2009-2010	84,379	1,385,501
	<u>\$ 181,865</u>	<u>\$ 2,053,369</u>

Note 2 - Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, being depreciated:				
Equipment	\$ 1,294,421	\$ 36,472	\$ 54,532	\$ 1,276,361
Electronic equipment	4,338,120	470,854	491,200	4,317,774
Furniture	1,202,807	7,057	510	1,209,354
Vehicles	300,508	61,591	-	362,099
Total capital assets being depreciated	<u>7,135,856</u>	<u>575,974</u>	<u>546,242</u>	<u>7,165,588</u>
Less accumulated depreciation for:				
Equipment	1,008,594	73,410	52,324	1,029,680
Electronic equipment	3,260,367	424,773	485,363	3,199,777
Furniture	743,488	82,826	510	825,804
Vehicles	211,241	29,238	-	240,479
Total accumulated depreciation	<u>5,223,690</u>	<u>610,247</u>	<u>538,197</u>	<u>5,295,740</u>
Total capital assets, being depreciated, net	<u>\$ 1,912,166</u>	<u>\$ (34,273)</u>	<u>\$ 8,045</u>	<u>\$ 1,869,848</u>

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Notes to Financial Statements (continued)  
June 30, 2010

Note 3 - 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 9.275% of the participants' gross salary. Total employer contributions during the year ended June 30, 2010 amounted to \$2,296,474.

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 (9.275% of the employee's salary) is used to fund the current plan.

For the year ended June 30, 2010, total covered payroll was \$24,738,219. Covered payroll refers to all compensation paid by the Office to employees covered by the ERS on which contributions to the pension are based.

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.

COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER

Notes to Financial Statements (continued)  
June 30, 2010

Additional information of the System is provided in its financial statements for the year ended June 30, 2010 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 4 - 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, 2010 amounted to \$2,118,376. Future minimum lease payments as of June 30 are as follows:

2011	\$ 1,141,994
2012	277,690
2013	26,608
	<u>\$ 1,446,292</u>

Note 5 - 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.

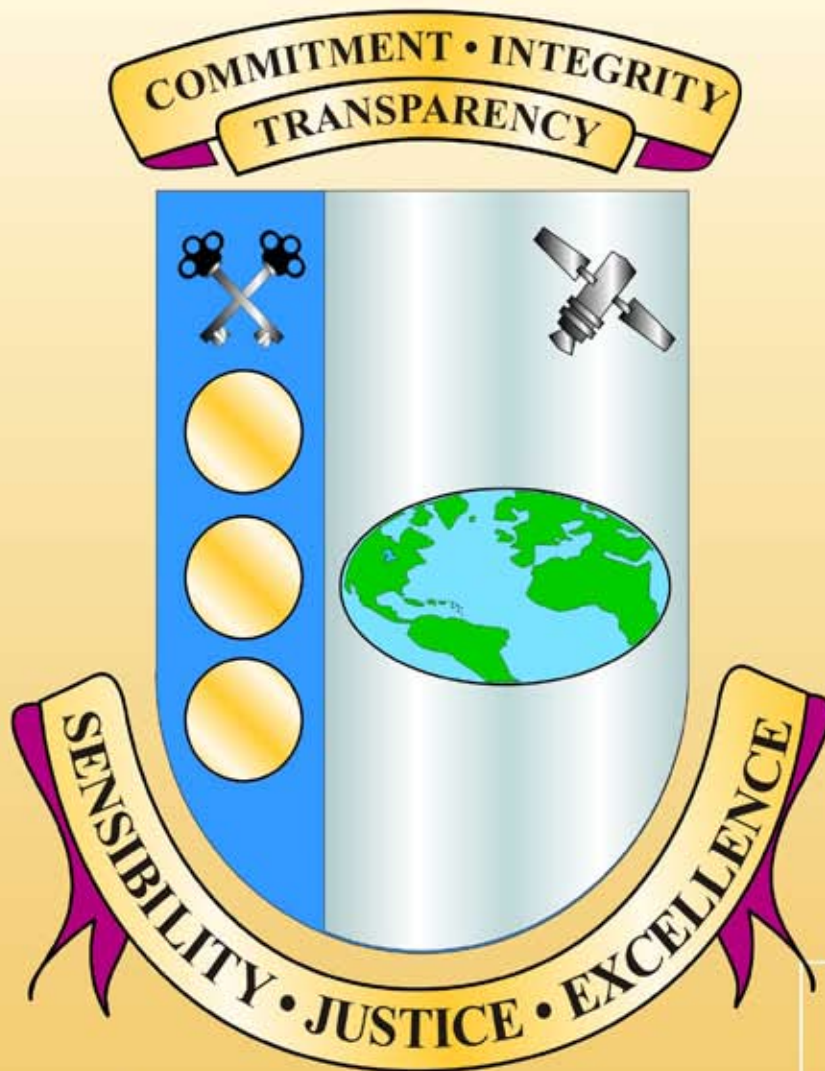
Note 6 - Contingencies

The Office is defendant in various lawsuits 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 7 - Compensated Absences

Long-term liability activity for the year ended June 30, 2010 was as follows:

	Beginning Balance 07/01/09	Accumulated Balance	Used Balance	Ending Balance 06/30/10	Due Within One Year	Long-Term Portion
<u>Year ended June 30, 2010:</u>						
Compensated absences	<u>\$ 9,760,839</u>	<u>\$ 4,745,800</u>	<u>\$ 4,682,847</u>	<u>\$ 9,823,792</u>	<u>\$ 629,623</u>	<u>\$ 9,194,169</u>



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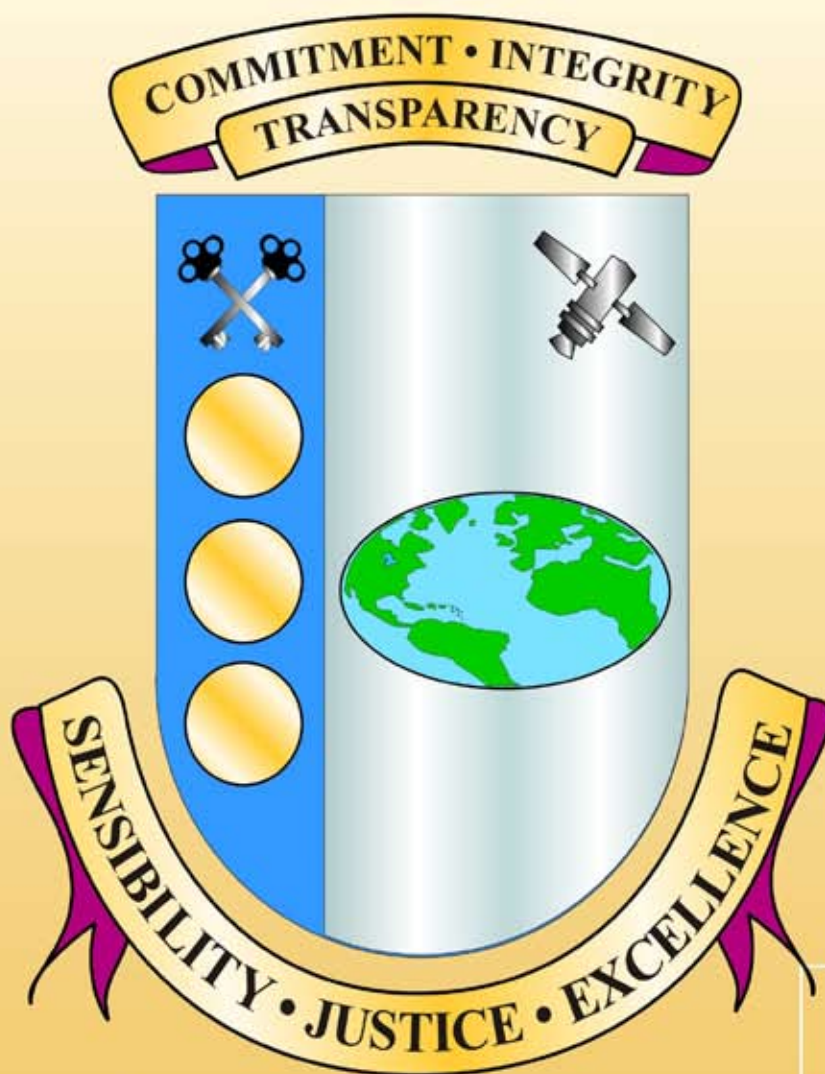
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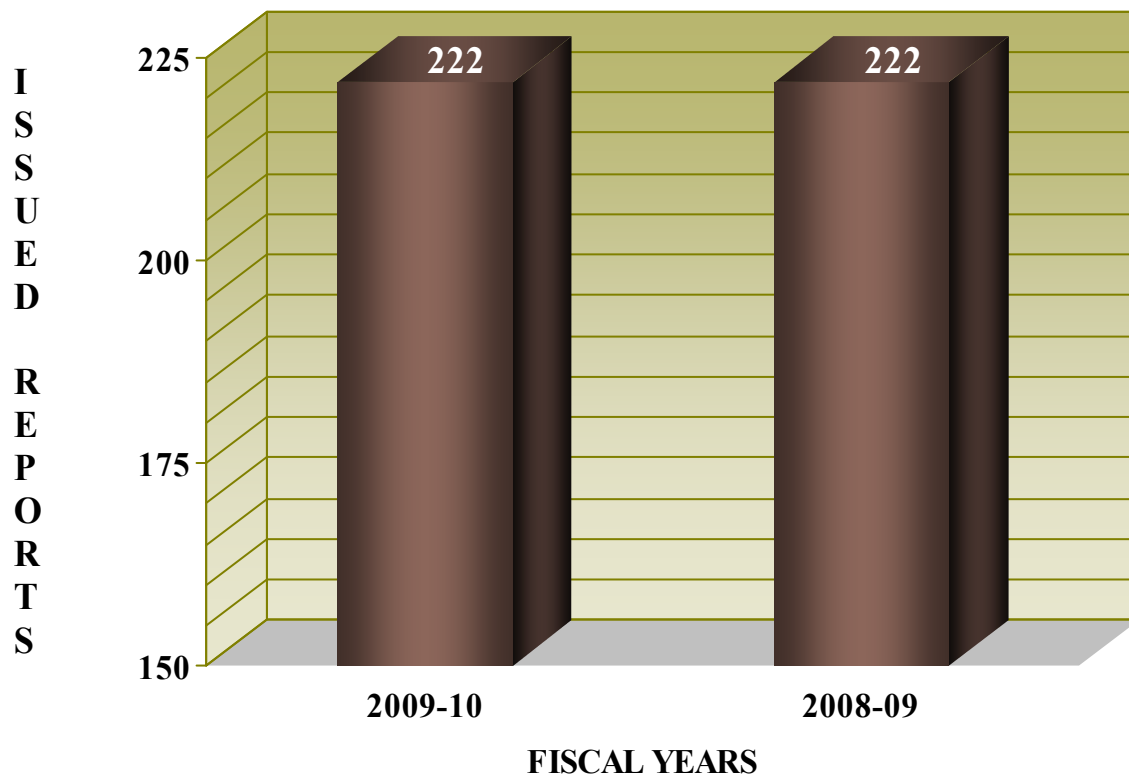

## Chart 1 – Operations Budget

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, 2009-10 and 2008-09.

Description	2009-10		2008-09	
	Appropriation	Percent	Appropriation	Percent
Salaries & Fringe Benefits	\$34,197,092	79.5	\$34,530,095	80.3
Meals and Travel	1,906,241	4.4	1,718,503	4.0
Other Services	696,001	1.6	795,726	1.9
Professional Services	1,592,290	3.7	1,679,644	3.9
Facilities and Utilities	2,987,376	6.9	3,069,601	7.1
Materials and Supplies	521,000	1.2	398,931	0.9
Other Expenditures	906,000	2.1	807,500	1.9
Capital Outlays	<u>194,000</u>	<u>0.5</u>	<u>0</u>	<u>0</u>
<b>Total</b>	<u><u>\$43,000,000</u></u>	<u><u>100</u></u>	<u><u>\$43,000,000</u></u>	<u><u>100</u></u>

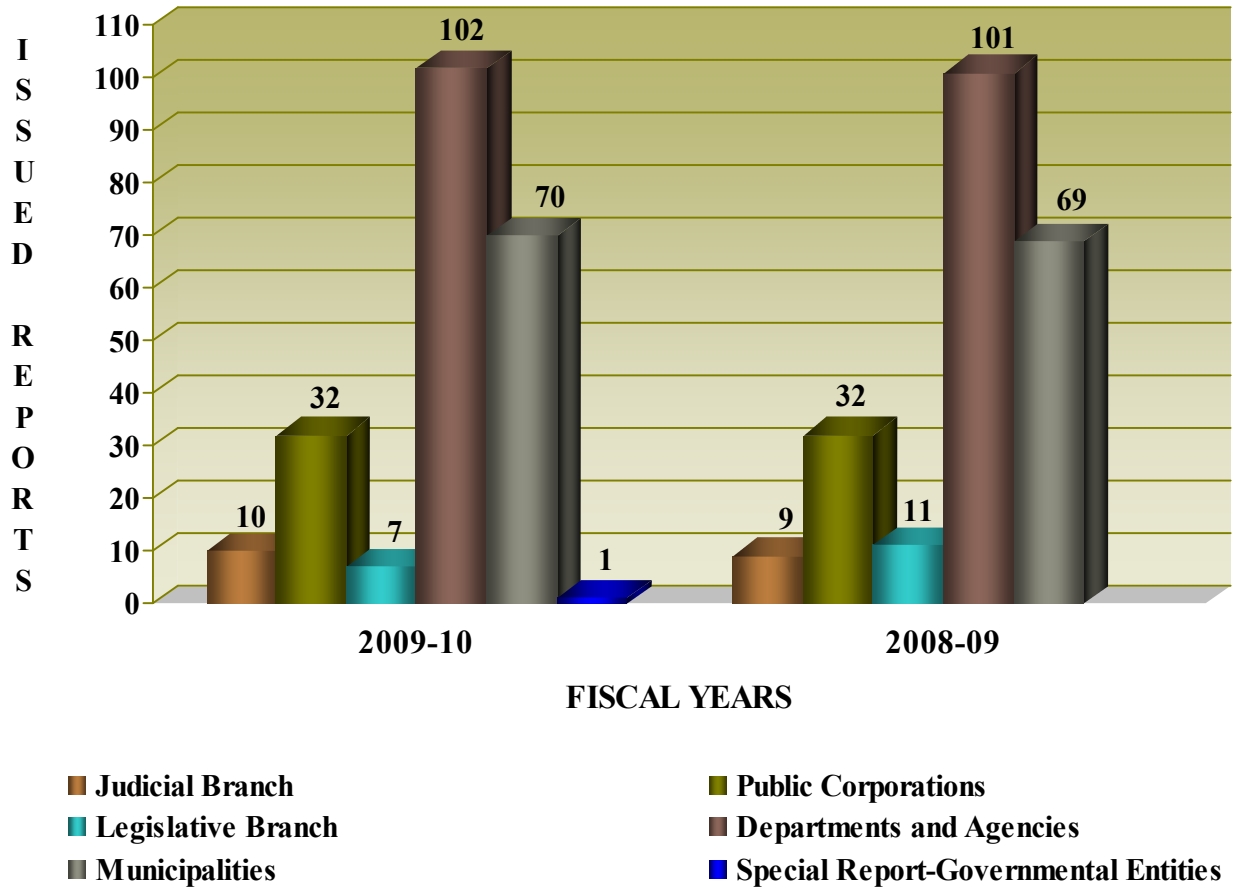
## Chart 2 – Issued Reports

During fiscal year 2009-10, this Office issued 222 reports. These reports involved audits which revealed administrative deficiencies, irregularities, or illegal acts in the operation of audited units. By the end of each fiscal year, the reports had been sent to the Governor, the President of the Senate, and the Speaker of the House of Representatives, and had been published in our website.



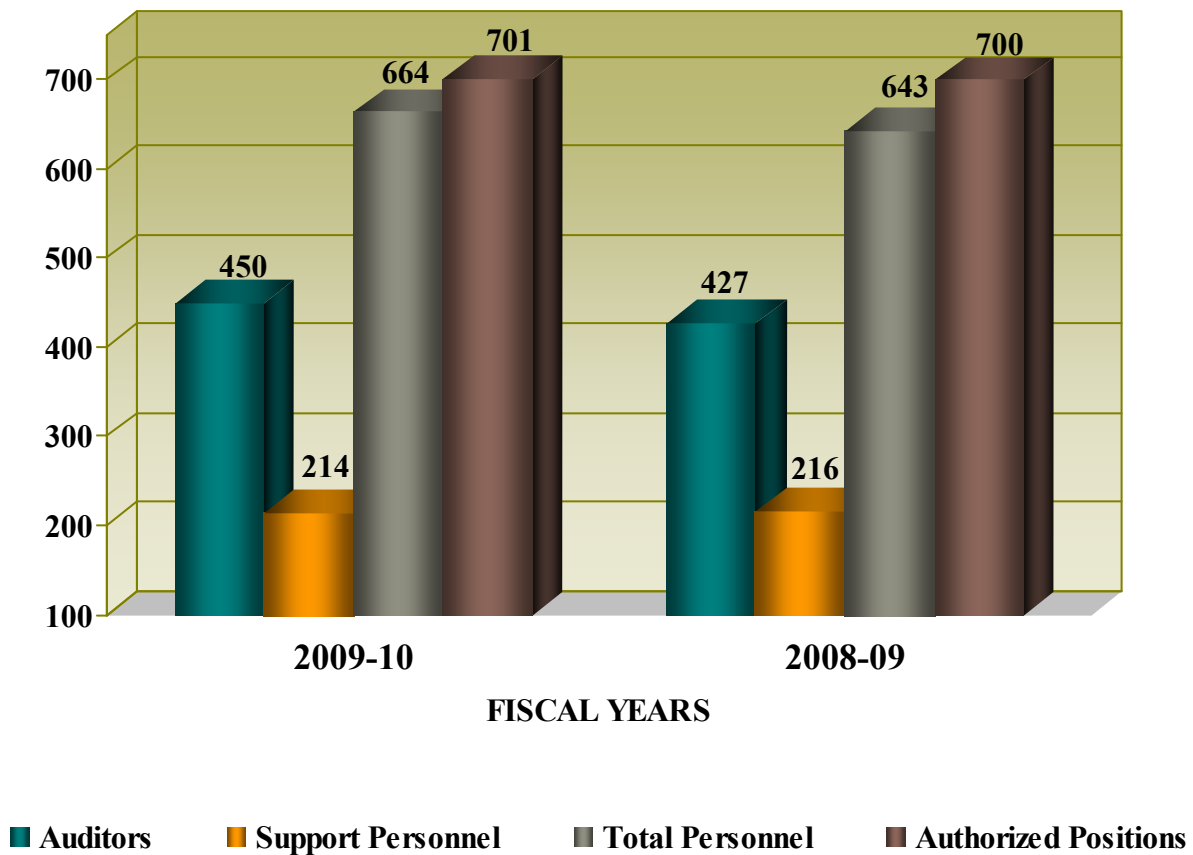
### Chart 3 – Issued Reports by Governmental Entity

This chart shows the number of issued reports by type of governmental entity for fiscal years 2009-10 and 2008-09.

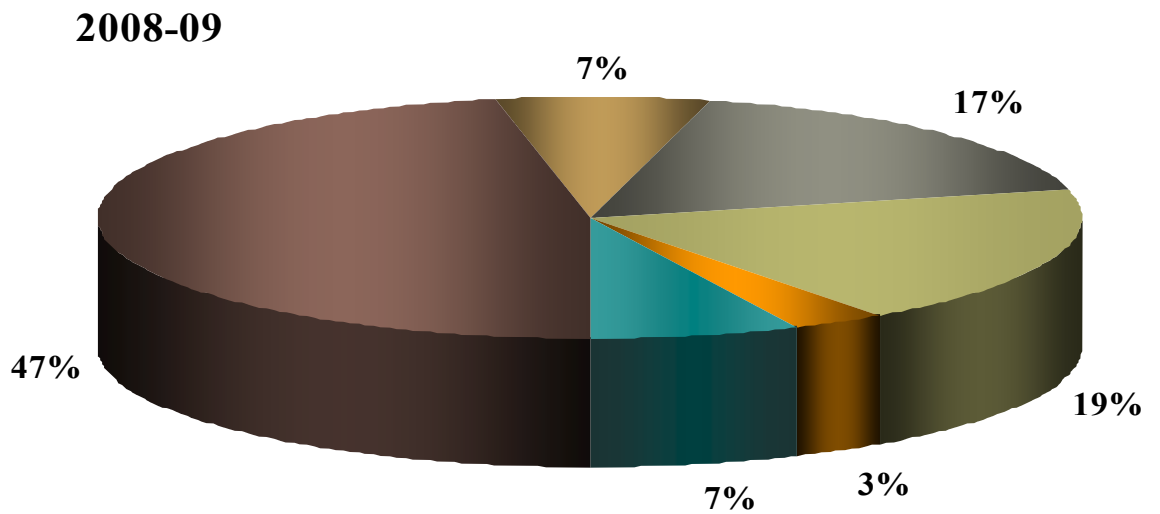
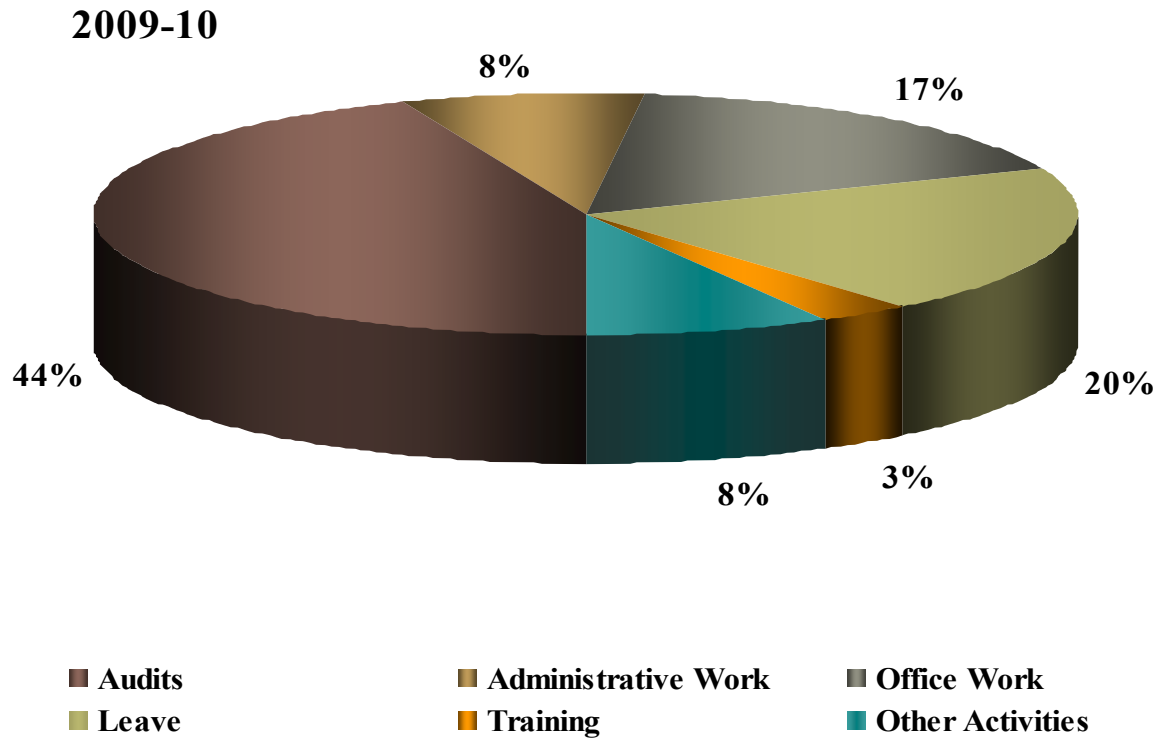


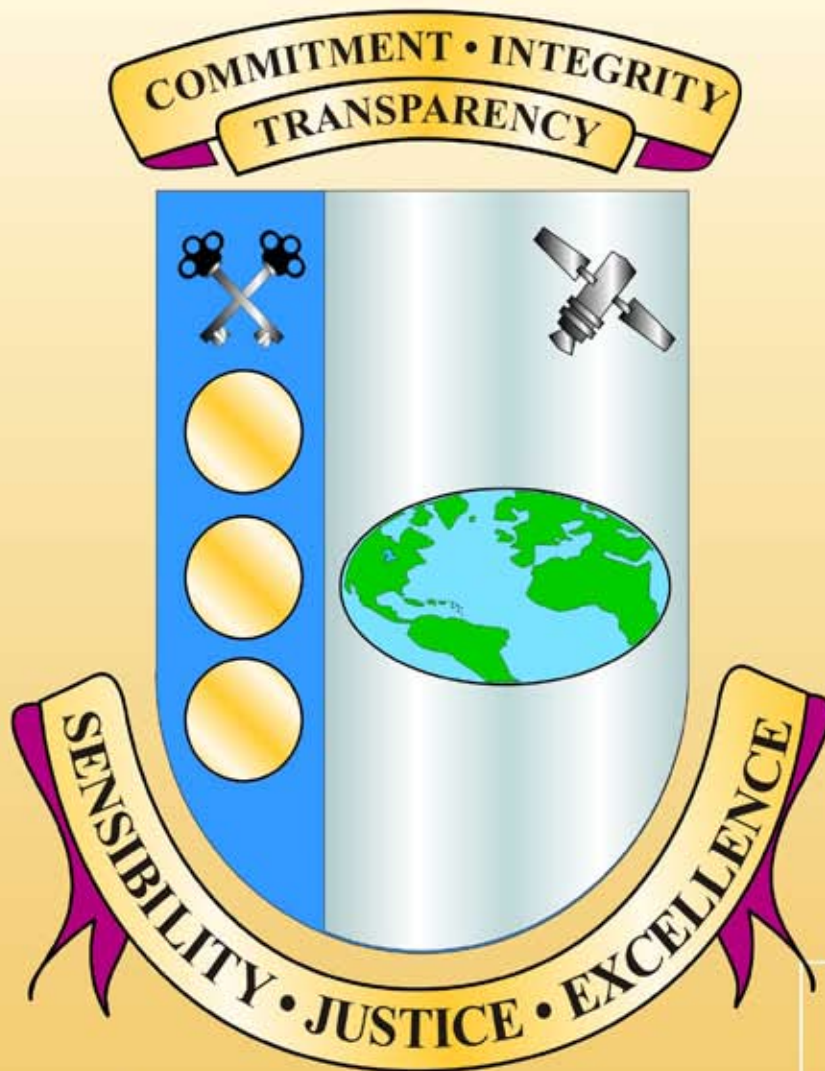
## Chart 4 – Human Capital

This chart shows the distribution of human capital by auditor and support personnel for fiscal years 2009-10 and 2008-09.



**Chart 5 – Time Distribution**





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We count on your cooperation  
to improve the oversight  
function and administration  
of public funds and property.





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