



Estado Libre Asociado de Puerto Rico
Oficina del Contralor

Yesmín M. Valdivieso
Contralora

August 30, 2019

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

In the exercise of our ministerial duty, we are pleased to enclose the Annual Report of the Office of the Comptroller of Puerto Rico, hereinafter referred to as the OCPR, for the fiscal years ended June 30, 2015 and June 30, 2016. 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.

KPMG, our independent auditor, has finally issued an unmodified ("clean") opinion on the OCPR financial statements for the fiscal years ended June 30, 2015 and 2016. The independent auditors' report is located at the front of the financial section of those reports. These statements, although ready since September, 2015 and October, 2016, respectively, were not issued before as our auditors were waiting for the net pension liability amounts required by the Government Accounting Standards Board in Standard 68.

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

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

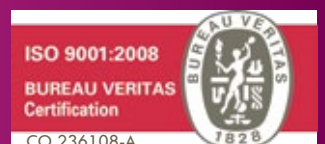
Respectfully submitted,


Yesmín M. Valdivieso



COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER

ANNUAL REPORT 2015



TQM A total Quality
Management Organization

OFFICIAL SHIELD



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

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

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

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

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

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

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

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

VALUES

COMMITMENT

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

EXCELLENCE

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

INTEGRITY

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

JUSTICE

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

RESPECT

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

RESPONSIBILITY

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

SENSIBILITY

We are empathic and treat others without prejudgments.

TRANSPARENCY

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

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Commonwealth of Puerto Rico
OFFICE OF THE COMPTROLLER

GENERAL INFORMATION

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

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

Government agencies are audited through the application of various Government Auditing Standards and other pertinent investigative techniques adopted by the Comptroller. The OCPR has organized all government entities of the Executive, Legislative, and Judicial branches, into 513 units, as of June 30, 2015 for auditing or examination purposes. This figure includes departments, agencies, public corporations, and municipalities.

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

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

STRATEGIC PLAN

For this period the OCPR operated according to the four year Strategic Plan 2014-17, approved on December, 2013. To achieve our mission and vision statements, and meet our statutory responsibilities, we developed our Plan which consisted of two strategic goals, six strategic objectives, and performance goals and initiatives to support what we want to achieve. The Plan was developed with the participation of 120 executives in three, one day sessions. The mission and values were revised and ideas to develop the goals, objectives and initiatives were considered in defining the execution plans. The vision declaration has a focus of serving Puerto Rico with a modern and technological Comptrollership that will carry out state of the art audits and investigations, to achieve good government through our experience and knowledge.

Each year we establish the objectives that we propose to accomplish, depending on the resources that are assigned to the OCPR. During fiscal year 2014-15 we attained significant goals using the managerial philosophy of Total Quality Management (TQM) to optimize the use of funds that have been assigned to conduct our operations.

OVERSIGHT

During fiscal year 2014-15, we published 111 audit reports, and 4 special reports. The audit reports correspond to the Legislative Branch (2), the Executive Branch (70), the Judicial Branch (1), and municipalities (38). The reports contained 2,365 situations: in the Legislative Branch (43), the Executive Branch (1,176), the Judicial Branch (13), and municipalities (1,131). Two special reports contained situations related to the Executive Branch (2) and municipalities (14). In Chart 4 we present the classification of the most important findings. On these reports we included 1,779 recommendations: to the Governor (6), the President of the Senate and the Speaker of the House of Representatives (7), the Department of Justice (12), the Treasury Department (3), the Office of Government Ethics of Puerto Rico (7), the principal officers of the entities (1,621), and others (123).

PREVENTION

1. Professional guidance concerning sound public administration were offered to 5,457 government officials and employees. These included internal auditors from the state government agencies, public corporations and municipalities, and 3,561 members of the public schools councils in compliance with Act No. 77-2006, as amended. It also includes lectures offered to 57 officials on the proper use of public property and funds in compliance with Act No. 78-2011, as amended, and 145 executives appointed by the Governor of Puerto Rico in compliance with Act No. 190-2006.
2. Offered technical training to municipal purchase officials and collectors about applicable laws, regulations and their duties in public administration.
3. Participated in national and international meetings and conferences related to our investigative and preventive functions, among them: TeamMate User Forum, Annual ACFE Global Fraud Conference, NASACT Annual Conference, Fraud Summit, ATD International Conference & Exposition, SQL/BI Pass Summit, Trends and Current Situations in Forensic Material and Digital Research, and a Workshop of Results Management and its Impact on New Trends in Audit.
4. Became a member of the *Organización Centroamericana y del Caribe de Entidades Fiscalizadoras Superiores (OCCEFS)* and participated in the XXXIX General Assembly of the OCCEFS celebrated in the Dominican Republic.
5. Participated in the VIII Eurosai Journey of the *Organización Latinoamericana y del Caribe de Entidades Fiscalizadoras Superiores (OLACEFS)*, about the Supreme Audit Institutions (SAI) contribution to Good Governance and Benefits of Coordinated Audits, celebrated in Quito, Ecuador.
6. Participated in the XXIV General Assembly of the OLACEFS in Cusco, Perú.
7. Received a delegation from the Perú Supreme Audit Institution to share with them the operation of our Office of Legal Matters, Litigation and Investigations, and the creation of the Data Analysis, Digital Forensics and Technology Division. The Perú SAI established a similar division in their country using the Office of the Comptroller as their model.
8. Answered 9 surveys and questionnaires from various Supreme Audit Institutions around the world, about topics such as audit programs, use of TeamMate, implementation of hotlines and others.

9. Celebrated the Fifth Anticorruption Summit with the participation of important executive officials from the Government of Puerto Rico, including the Executive Director of the Puerto Rico Office of Government Ethics, the Secretary of the Department of Justice, a members of the Panel of the Special Independent Prosecutor, and the Public Integrity Division Special Agent in Charge of the Federal Bureau of Investigation San Juan Division, United States Attorney for the District of Puerto Rico and the Comptroller of Puerto Rico. This panel offered lectures about the functions of their institutions and anticorruption initiatives in the Government of Puerto Rico. The Summit received 841 officials and public servants.
10. Formalization of Collaboration Agreements with the following institutions:
- a. Office of Training and Advisory on Labor Matters and Human Resources Administration (OCALARH) on June 19, 2013.
 - b. Interagency agreement among the OCPR, OCALARH, Office of the Commissioner of Municipal Affairs (OCAM) and the Puerto Rico Institute of Statistics for the compilation information of occupied government positions in Puerto Rico on July 10, 2014.
 - c. Department of State on May 14, 2015.
 - d. Memorandum of Understanding between the United States Attorney's Office for the District of Puerto Rico, Federal Bureau of Investigation and the Comptroller of Puerto Rico, April 27, 2015.
 - e. Department of Justice on April 10, 2015.
 - f. Department of Human Resources and Labor on April 21, 2015.
11. Twenty-seven circular letters were issued during fiscal year 2014-2015. Among the most important letters are:
- a. Circular Letter OC-15-03 dated September 3, 2014 - *Versión 4.2 de la Aplicación del Registro de Pérdidas o Irregularidades en el Manejo de Fondos o Bienes Públicos*
 - b. Circular Letter OC-15-07 dated November 14, 2014 - *Certificación e Informe Anual sobre el Estado de Privatizaciones al 30 de junio de 2014*
 - c. Circular Letter OC-15-08 dated November 21, 2014 - *Certificación Anual y Aplicación del Registro de Información Requerida por el Artículo 10 de la Ley 103-2006*
 - d. Circular Letter OC-15-09 dated November 21, 2014 - *Orientación sobre el Gasto Público, en la Realización de Actividades Durante la Época Navideña*
 - e. Circular Letter OC-15-10 dated December 5, 2014 - *Orientación sobre el desembolso de fondos para llevar a cabo actividades de conmemoración durante los meses de febrero y julio*
 - f. Circular Letter OC-15-11 dated January 9, 2015 - *Solicitudes de Orientación Legal*
 - g. Circular Letter OC-15-12 dated January 9, 2015 - *Contratación de corporaciones privadas para brindar servicios profesionales de ingeniería, de agrimensura, de arquitectura y de arquitectura paisajista*

- h. Circular Letter OC-15-13 dated January 16, 2015 - *Normas legales recientes aplicables a la contratación gubernamental*
- i. Circular Letter OC-15-14 dated January 20, 2015 - *Registro Anual de Puestos por Demografía (OCALARH)*
- j. Circular Letter OC-15-18 dated January 30, 2015 - *Fechas límites en el 2015 para remitir a la Oficina del Contralor los Informes Mensuales del Registro de Puestos e Información Relacionada*
- k. Circular Letter OC-15-19 dated January 30, 2015 - *Cartas circulares derogadas*
- l. Circular Letter OC-15-20 dated April 8, 2015 - *Orientación sobre el uso de fondos públicos relacionados con la contratación del recogido y la disposición de los desperdicios sólidos*
- m. Circular Letter OC-15-21 dated April 27, 2015 - *Guías que deben observar los funcionarios de las entidades y los auditores externos para cumplir con la Ley 273-2003, Ley de Normas Contractuales sobre la Independencia en las Auditorías Externas, según enmendada*
- n. Circular Letter OC-15-22 dated April 27, 2015 - *Uso del papel térmico en las transacciones fiscales en las entidades del Gobierno de Puerto Rico*
- o. Circular Letter OC-15-23 dated May 6, 2015 - *Aclaración sobre los contratos de privatizaciones y su registro en la Oficina del Contralor*
- p. Circular Letter OC-15-24 dated June 8, 2015 - *Desembolsos de fondos públicos para la publicación de anuncios gubernamentales y contratación de servicios de publicidad*
- q. Circular Letter OC-15-26 dated June 18, 2015 - *Reglamentos que le corresponden aprobar a los Municipios*
- r. Circular Letter OC-15-27 dated June 19, 2015 - *Comisiones de asuntos de auditoría en las legislaturas municipales*

HUMAN CAPITAL

1. Office-wide training was offered on techniques for the detection of illegal use of controlled substances, sexual harassment, and other forms of discrimination.
2. All personnel were trained on Government Ethics.
3. Fringe benefits and office contribution to the Medical plan were maintained to retain and attract highly qualified personnel.
4. Engaged in special activities as part of our commitment with the community and to comply with our social responsibility objective. Among them:
 - United Fund Campaign.
 - Participated in activities with the Muscular Dystrophy Association.
 - Bringing backpacks and school materials for children in Haití.
 - Bringing gifts and toys to sixty children at Hospital del Niño.

- Participated in activities with the San Jorge Children's Foundation
 - Donated surplus equipment to schools and other non-profit organizations.
5. The OCPR continued to provide services as established in the Personnel Support Program. The Program's philosophy and goals are directed to assist our fellow-workers and their families, primarily, for problems related to 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. Internship Program: provided qualified university students the opportunity for learning government operations through the audits that the Office performs. Also to develop and encourage interest in public service.

TECHNOLOGY

1. Implemented version 4.4 of the Public Registry of Government Contracts (Act No. 18 of October 1975, as amended).
2. Implemented phase 1 and 2 of the Office 365 collaboration suite (cloud based), replacing the local infrastructure of the Exchange 2010 server.
3. Upgraded the Time Matters Software to the latest version for the Legal and DALAF Divisions.
4. Implemented a new version (v 5.0) of the Registry of Losses and Irregularities Related to Public Funds and Property (Act No. 96 of June 1964, as amended).
5. Implemented the platform of *Agiloft* (Agile Business Software) and integrated the first application of workflows for services of our General Services Division.
6. Implemented two versions (1.1 and 1.2) of the Annual Registry of Governmental Employment by Demographics, as part of the Governmental Payroll Expenses and Governmental Employment (Act No. 103 of May 2006, as amended).
7. Implemented phase 1 of the Information Technology Division reorganization.
8. Improvements to the security controls (Firewall) were implemented.
9. Implemented the first phase of improvements to the communications network (Main office to field audits) using new VPN client solution.
10. Upgraded the TeamMate Audit Management System to version 11.01.

TOTAL QUALITY MANAGEMENT

IMPROVING PROCESSES

We continued with our commitment to analyze existing processes in our organization to improve them, and identifying the pertinent variables so as to monitor behavior, measure progress, and control the processes. During fiscal year 2014-15, we evaluated and made recommendations to improve the Complaints Process related to the audit function, using the Management Improvement Team's

methodology. This resulted in the creation of the Office of Complaints and Fiscal Intelligence. Also, the OCPR met most of the goals related to the core processes as established in the Strategic Plan.

ISO (INTERNATIONAL ORGANIZATION FOR STANDARDIZATION)

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

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

On April 16, 2009, Bureau Veritas, a widely recognized certification body in the world, certified the Quality Management System (QMS) of the OCPR against the 9001:2008 international standard. Also, the scope of the certification extended to include the design and execution of external orientations and training as means of governmental control. On June 30, 2011 and January 25, 2012, Bureau Veritas performed the required follow up audits and certified, without any non-conformances detected, the compliance of our QMS to the standard. On September 20, 2012, Bureau Veritas re-certified the QMS of the OCPR against the 9001:2008 international standards for the next three years, contingent to successful periodic follow up audits. On April 2, 2013, Bureau Veritas performed the first follow up audit and certified, without any non-conformances detected, the compliance of our QMS to the standard. On September 23, 2014 and March 27, 2015, Bureau Veritas performed the required follow up audits and certified, without any non-conformances detected, the compliance of our QMS to the standard.

THE CORRECTIVE ACTION PLAN

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

By June 30, 2015, the OCPR had received 590 and evaluated 557 CAPs to ascertain compliance with the recommendations contained in the audit reports; this represents 94 percent of the evaluations. This figure includes initial CAPs and complementary reports. During fiscal year 2013-14 the OCPR received 525 and evaluated 494 CAPs, the 31 remaining were evaluated during fiscal year 2014-15. The Executive Order and Regulation No. 26 state that government entities should apply the same procedures applicable to the Comptroller’s audit report recommendations contained in the

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

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

PUBLIC REGISTRY OF GOVERNMENT CONTRACTS

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

The OCPR uses the Registry for verification purposes as part of its oversight role. On October 15, 2009, we implemented a version of the Registry which allows government agencies, among other enhancements, to send digitized copies of the contracts using the Internet. The Registry is accessible to the general public via Internet since 1999 at www.ocpr.gov.pr. Interested parties may request copies of these contracts. A nominal fee is required for each copy. The OCPR received 657 requests and submitted 3,713 copies during fiscal year 2014-15. During fiscal year 2013-14 it received 634 requests and submitted 3,065.

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 reference 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 LOSSES OR IRREGULARITIES OF PUBLIC FUNDS OR PROPERTY

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

REGISTRY OF PRIVATIZATIONS

Act No. 136-2003, as amended by Act No. 71-2007, requires all government entities, including public corporations and municipalities, to submit an annual report of all privatizations of functions, areas of administration, or duties of their entities to the Governor, the Legislature and the Office of the

Comptroller. Additionally, they have to submit all documents related to contracts, budget, projects, obligations, internal controls, real property and an independent financial and administrative evaluation of said privatizations. The OCPR is required to maintain a registry on all reports received. The Registry is accessible to the general public via Internet at www.ocpr.gov.pr.

GOVERNMENT EXPENSES AND EMPLOYMENT REGISTRY

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

RESULTS OF OPERATIONS

BUDGET

The budget assigned to the OCPR for fiscal year 2014-15 was \$40,315,000, it represented a decrease of \$2,685,000 compared to the previous year. The OCPR spent and encumbered \$39,762,446 leaving an unexpended balance of \$552,554. This balance is available for non-recurring expenses. Specific information is presented in the Statistical Section of this Report. (Chart 1)

HUMAN CAPITAL

As of June 30, 2015 the OCPR had 601 full time occupied positions or 86 percent out of 701 authorized positions; 384 were auditors and 217 were support personnel. Support personnel consist of legal counsels, administrative staff, and other professionals. (Chart 2) During 2014-2015, 11 auditors and 7 support personnel resigned or retired, while 14 auditors and 3 support personnel were hired. A grand total of 899,245 hours were dedicated to audits, service and administrative support, information and communication systems, trainings, and prevention and anti-corruption. (Chart 3)

TRAINING

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

During 2014-15, 30,317.25 hours were dedicated to training and education. Seminars and conferences in auditing, management, report writing, grammar skills, leadership, supervision, and recent developments in information technology were a priority.

FINANCIAL INFORMATION

INTERNAL CONTROLS

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

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

BUDGETARY CONTROLS

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

INDEPENDENT AUDIT

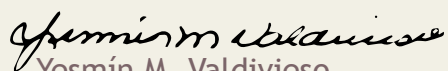
KPMG, LLP an independent certified public accounting firm, performed the audit of the financial statements of the OCPR for fiscal year ended June 30, 2015. The Independent Auditors' Report is included in the Financial Section. The accounting firm performed the audit on time as expected. The OCPR received the audited financial statements on January 29, 2019.

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

August 30, 2019

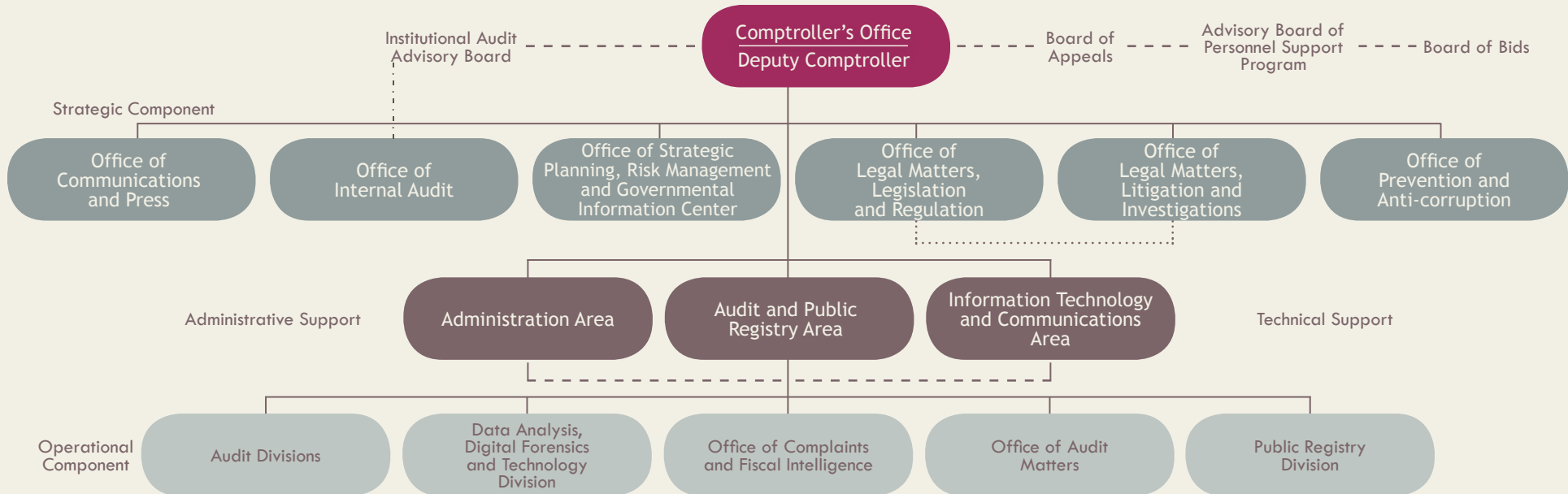


ORGANIZATIONAL CHART



COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER

ORGANIZATIONAL CHART



----- Consulting and Advisory Areas

..... Technical Control and Coordination Areas

- Reports to Institutional Advisory Board and Administratively to the Comptroller

The background features a collage of stylized human figures. The top half shows faint, light-colored paper cutouts of people holding hands in a circle. The bottom half shows a more vibrant, blurred image of similar figures, suggesting movement and a larger group. A large, solid purple rectangle is positioned on the right side, containing the title text.

PRINCIPAL OFFICERS

PRINCIPAL OFFICERS

OFFICE OF THE COMPTROLLER

Hon. Yesmín M. Valdivieso
Comptroller

Natanael Arroyo Cruz
Deputy Comptroller

Miriam T. Contreras Amador
Assistant Comptroller
Administration Area

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

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

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

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

Myriam J. Flores Santiago
Director of Internal Audit

Lisandra Rivera Rivera
Director of Communications
and Press

AUDIT AND PUBLIC REGISTRY AREA

Yamira Pérez Ortiz
Executive Director
Office of Audit Matters

Héctor A. Rivas Ortiz
Audit Director
Departments and Agencies Division

Julio J. Dávila Bravo
Audit Director
Public Corporations Division

Arnaldo L. Negrón Otero
Audit Director
Municipalities Division

Lourdes Díaz Valcárcel
Audit Director
Information Technology Division

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

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

Alberto J. Castro Laboy
Director of Public Registry
Division

Egda M. Pagán Rivera
Director
Office of Complaints and Fiscal
Intelligence

ADMINISTRATION AREA

Oscar A. Luna Díaz
Director
Finance and Budget Division

Iseut G. Vélez Rivera
Director
Human Capital Division

Elsa S. Páez Guerrero
Director
General Services Division

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

Carlos A. Pérez Rivera
Administrator
Public Documents Administration
Program

INFORMATION TECHNOLOGY AND COMMUNICATIONS AREA

N'gai Oliveras Arroyo
Director of Information Systems

The background of the image shows a blurred office scene with people in business attire sitting around a table, holding pens and looking at documents. A large, solid magenta shape, resembling a stylized arrow or a piece of paper, is overlaid on the right side of the image. The text 'FINANCIAL SECTION' is written in white, bold, sans-serif capital letters across the middle of this magenta shape.

FINANCIAL SECTION



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

Financial Statements and Required Supplementary Information

June 30, 2015

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
American International Plaza
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Independent Auditors' Report

The Comptroller of Puerto Rico
Office of the Comptroller:

We have audited the accompanying financial statements of the governmental activities and General Fund of the Office of the Comptroller of the Commonwealth of Puerto Rico (the Office), an agency of the Commonwealth of Puerto Rico (the Commonwealth), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and General Fund of the Office of the Comptroller of the Commonwealth of Puerto Rico as of June 30, 2015 and, the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matters

An Agency of the Commonwealth of Puerto Rico

As discussed in note 1, the financial statements of the Office, an agency of the Commonwealth, are intended to present the financial position and changes in financial position of only that portion of the governmental activities and the General Fund of the Commonwealth that is attributable to the transactions of the office. They do not purport to, and do not, present fairly the financial position of the Commonwealth as of June 30, 2015, or the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Going Concern – Commonwealth of Puerto Rico

As more fully described in note 2 to the financial statements, the Office is an agency of the Commonwealth. The Commonwealth has incurred recurring deficits, has a negative financial position, has experienced further deterioration of its economic condition, has not been able to access the credit markets, and has stated that substantial doubt exists about the Commonwealth's ability to continue as a going concern. Our opinions are not modified with respect to this matter.

Adoption of New Accounting Pronouncement

As discussed in notes (3)(i)(i), (3)(1), and (4) to the financial statements, effective July 1, 2014, the Office adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB No. 68. Our opinions were not modified as a result of this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 10 and the schedules of employer's share of net pension liability and related ratios, employer's contributions, and budgetary information on pages 34 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2019 on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control over financial reporting and compliance.

KPMG LLP

San Juan, Puerto Rico
January 29, 2019

Stamp No. E363667 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis (Unaudited)
June 30, 2015

The Office of the Comptroller (the Office), an agency assigned to the Legislative Branch of the Commonwealth of Puerto Rico (the Commonwealth), offers to the readers of the financial statements this narrative overview and analysis of the financial activities of the Office for the fiscal year ended June 30, 2015.

Financial Highlights

- Total liabilities of the Office's governmental activities at the close of the fiscal year ended June 30, 2015 amounted to approximately \$160,000,000 comprising primarily of the net pension liability of approximately \$147,000,000. Total liabilities and deferred inflows of resources exceeded total assets and deferred outflows of resources by approximately \$134,000,000 mainly as a result of the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* (GASB Statement No. 68) and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68* (GASB Statement No. 71) which resulted in the established a net pension liability of approximately \$147,000,000.
- The Office's total net position decreased by approximately \$50,000 in fiscal year 2015 when compared to prior year net position of approximately \$4,090,000, before adoption of GASB Statement No. 68 and GASB Statement No. 71.
- The Office's total assets and deferred outflows of resources increased by approximately \$18,170,000.
- The Office's net investment in capital assets decreased by approximately \$317,000.
- The final budget of the Office for fiscal year 2014-2015 was \$40,315,000. It represents a decrease of \$2,685,000 when compared to the 2013-2014 budget.

The Office's revenues and other financing sources exceeded its budgetary basis expenditures by approximately \$560,000 for the fiscal year 2014-2015.

Overview of the Basic Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 13 to 32 of this report.

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Implementation of New Accounting Standards

As required by U.S. generally accepted accounting principles (GAAP), the Office implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* related to its pension retirement system as of July 1, 2014.

GASB Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements (pension trusts). This Statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement. The requirements of GASB Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and Required Supplementary Information requirements about pensions also are addressed. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

GASB Statement No. 71 amends GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date for determining net pension liability.

The impact of the implementation of GASB Statement No. 68 and GASB Statement No. 71 was a decrease to the net position as of July 1, 2014 by approximately \$123,000,000.

Financial Analysis of the Governmental Activities

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

Net Position

The statement of net position serves as an indicator of the Office's financial position at the end of fiscal year. The Office's net position decreased by approximately \$136,000,000, when compared with the prior year balance. Effective July 1, 2014, the Office recognized a decrease of approximately \$123,000,000 in its net position at July 1, 2014 as a result of the adoption of GASB Statement No. 68 and GASB Statement No. 71. In addition, the change in the net position decreased by approximately \$6,590,000 for the year ended June 30, 2015. The Office's net position includes a net investment in capital assets for approximately \$2,100,000 and

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unrestricted deficit of approximately \$136,000,000. The following is condensed summary information for fiscal years ended June 30, 2015 and 2014.

Condensed summary information of net position			
	2015	2014*	Change
Cash and other assets	\$ 6,139,355	5,813,160	326,195
Capital assets, net	2,069,688	2,386,190	(316,502)
Total Assets	8,209,043	8,199,350	9,693
Deferred outflows of resources	18,159,293	—	18,159,293
Total assets and deferred outflows of resources	\$ 26,368,336	8,199,350	18,168,986
Accounts payable and accrued expenses	\$ 1,281,043	1,329,394	(48,351)
Noncurrent liabilities	157,986,918	10,957,955	147,028,963
Total liabilities	159,267,961	12,287,349	146,980,612
Deferred inflows of resources	928,269	—	928,269
Total liabilities and deferred inflows of resources	\$ 160,196,230	12,287,349	147,908,881
Net position:			
Net investment in capital assets	\$ 2,069,688	2,386,190	(316,502)
Unrestricted – deficit	(135,897,582)	(6,474,189)	(129,423,393)
Total net position	\$ (133,827,894)	(4,087,999)	(129,739,895)

* 2014 amounts have not been restated to reflect the adoption of GASB Statements No. 68 and 71.

Total assets of the Office's at June 30, 2015 increased by approximately \$10,000, when compared to the total assets as of June 30, 2014.

Deferred outflows of resources, which represents resources applicable to a future reporting period, increased by approximately \$18,000,000 when compared to June 30, 2014, primarily as a result of the implementation of GASB Statement No. 68, as amended.

Total liabilities at June 30, 2015 increased by approximately \$147,000,000 when compared to total liabilities at June 30, 2014, primarily as a result of the implementation of GASB Statement No. 68 as amended, which recognized the net pension liability which amounted to approximately \$147,000,000 at June 30, 2015.

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Deferred inflows of resources, which is an acquisition of resources by the Office that is applicable to a future reporting period, amounted to approximately \$930,000 at June 30, 2015 and it is related to the pension plan activities as a result of the Office's adoption of GASB Statement No. 68.

Capital Assets

The capital assets of the Office are those assets that are used in the performance of its functions. The net investment in capital assets for the fiscal year ended June 30, 2015 amounts to approximately \$2,100,000. The Office's capital assets, net decreased during 2015 by approximately \$317,000.

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

- The retirement of equipment, electronic equipment, furniture, and software in the net amount of approximately \$106,000;
- The acquisition of software including capitalization of internally developed software in the amount of approximately 92,000;
- Current year's depreciation and amortization of approximately \$560,000; and
- The acquisition of equipment, vehicle, and furniture at a cost of approximately \$190,000.

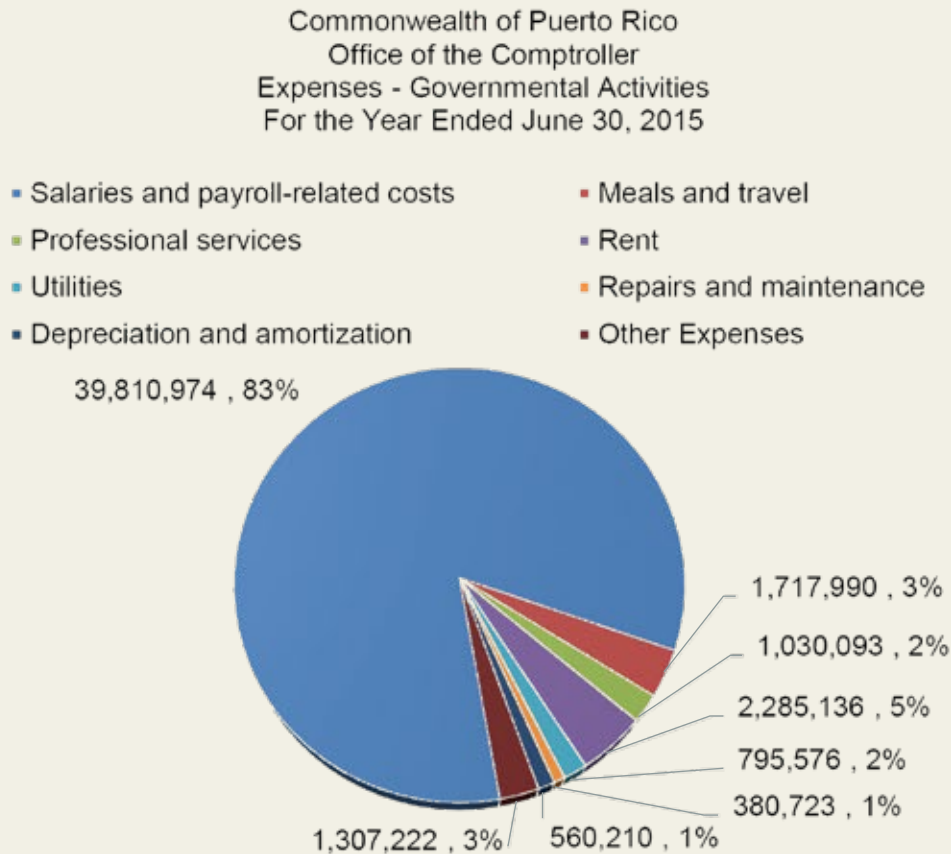
Changes in Net Position

The following condensed summary of activities reflects how the Office's net position changed during the fiscal year ended June 30, 2015.

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Revenues	\$ 7,445	6,551	894
Transfers in	41,292,643	43,726,700	(2,434,057)
Expenses	<u>(47,887,924)</u>	<u>(42,013,547)</u>	<u>(5,874,377)</u>
Change in net position	<u>\$ (6,587,836)</u>	<u>1,719,704</u>	<u>(8,307,540)</u>

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The following chart presents the expenses incurred by the Office during the fiscal year ended June 30, 2015.



The Office's major expense is related to salaries, benefits, and payroll taxes, which represent 83% of total expenses incurred during fiscal year ended June 30, 2015. Total expenses also increased by \$5,875,000 mainly due to the implementation of GASB 68. The decrease in transfers in of approximately \$2,430,000 is mainly due to a decrease in the annual Legislative appropriation of \$2,658,000 when compared to 2014.

General Fund Budgetary Highlights

The 2014–2015 General Fund Budget was \$40,315,000 and actual expenditures in the budgetary basis were approximately \$39,762,000. Total expenditures represented 98.6% of total budget availability for the fiscal year. The Office's expenditure rate increased by approximately 3% when compared to prior year performance (95.9%).

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The following table summarizes the operational results under the non-GAAP budgetary basis of accounting for the fiscal year ended June 30, 2015.

	<u>Actual</u>
Revenue and other financing sources	\$ 40,322,445
Expenditures	<u>39,762,446</u>
Unexpended balance	<u>\$ 559,999</u>
Expenditure rate	98.6%

The operational results present a saving on the assigned budget amounting to approximately \$600,000 for year ended 2015.

Economic Factors and Next Year's Budget

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

In order to generate the necessary resources to meet the Commonwealth debt, the Governor signed into law Act No. 72 on May 19, 2015, which amends certain provisions of the Puerto Rico Internal Revenue Code of 2011. The Act increases the Sales and Use Tax (SUT) rate and establishes transitional measures for the migration from the SUT towards a Value Added Tax (VAT), effective on April 1, 2016. The Commonwealth, in order to reduce its deficit, made a reduction on its general fund budget for 2016. As a result of this reduction, the Office approved budget for the fiscal year in 2016 is \$39,690,000, a reduction of \$625,000 when compared to 2015.

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

Requests for Information

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

COMMONWEALTH OF PUERTO RICO
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(An Agency of the Commonwealth of Puerto Rico)
General Fund Balance Sheet and Statement of Net Position

June 30, 2015

	<u>General fund balance sheet</u>	<u>Adjustments</u>	<u>Statement of net position</u>
Assets:			
Cash in governmental bank	\$ 6,098,675	—	6,098,675
Accounts receivable – employees and other	40,680	—	40,680
Capital assets:			
Nondepreciable	—	154,801	154,801
Depreciable, net	—	1,914,887	1,914,887
Capital assets, net	—	2,069,688	2,069,688
Total assets	6,139,355	2,069,688	8,209,043
Deferred outflows of resources	—	18,159,293	18,159,293
Total assets and deferred outflows of resources	\$ 6,139,355	20,228,981	26,368,336
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,281,043	—	1,281,043
Other accrued long-term liabilities, due within one year	—	931,064	931,064
Other accrued long-term liabilities, due after one year	—	10,137,947	10,137,947
Net pension liability	—	146,917,907	146,917,907
Total liabilities	1,281,043	157,986,918	159,267,961
Deferred inflows of resources	—	928,269	928,269
Total liabilities and deferred inflows of resources	1,281,043	158,915,187	160,196,230
Fund balance/net position:			
Fund balance:			
Committed	374	(374)	—
Assigned	243,544	(243,544)	—
Unassigned	4,614,394	(4,614,394)	—
Total fund balance	4,858,312	(4,858,312)	—
Total liabilities and fund balance	\$ 6,139,355		
Net position:			
Net investment in capital assets		2,069,688	2,069,688
Unrestricted		(135,897,582)	(135,897,582)
Net position		\$ (133,827,894)	(133,827,894)

See accompanying notes to financial statements.

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Statement of General Fund Revenue,
Expenditures, and Changes in Fund Balance and Statement of Activities
June 30, 2015

	General Fund Revenue, Expenditures, and Changes in Fund Balance	Adjustments	Statement of Activities
Expenditures/expenses:			
General government:			
Salaries and payroll-related costs	\$ 33,165,094	6,645,880	39,810,974
Meals and travel	1,717,990	—	1,717,990
Professional services	1,030,093	—	1,030,093
Insurance	35,967	—	35,967
Rent	2,285,136	—	2,285,136
Utilities	795,576	—	795,576
Noncapitalizable equipment	37,584	—	37,584
Materials and supplies	81,515	—	81,515
Repairs and maintenance	380,723	—	380,723
Depreciation and amortization	—	560,210	560,210
Loss on disposition of assets	—	105,977	105,977
Trainings and continuing professional education	199,773	—	199,773
Subscriptions and memberships	121,183	—	121,183
Outsource services:			
Security	219,540	—	219,540
Maintenance	70,962	—	70,962
Other	363,317	—	363,317
Printing services	38,115	—	38,115
Postage	708	—	708
Miscellaneous	32,581	—	32,581
Capital outlays	349,685	(349,685)	—
Total expenditures/expenses	40,925,542	6,962,382	47,887,924
General revenue – Interest income	6,610	—	6,610
General revenue – Miscellaneous income	835	—	835
Other financing sources – Transfers in:			
Commonwealth of Puerto Rico appropriations	40,315,000	—	40,315,000
Other Commonwealth of Puerto Rico appropriations under Joint Resolution No. 46, of July 1, 2014	977,643	—	977,643
Total general revenue and transfers in	41,300,088	—	41,300,088
Excess of revenues and transfers in over expenditures	374,546	(374,546)	—
Change in net position	—	(6,587,836)	(6,587,836)
Fund balance/net position:			
At beginning of year, as previously reported	4,483,766	(8,571,765)	(4,087,999)
Prior period adjustment, see note 4	—	(123,152,059)	(123,152,059)
At beginning of year, as restated, see note 4	4,483,766	(131,723,824)	(127,240,058)
At end of year	\$ 4,858,312	(138,686,206)	(133,827,894)

See accompanying notes to financial statements.

COMMONWEALTH OF PUERTO RICO
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Notes to Financial Statements

June 30, 2015

(1) Organization and Basis of Presentation

(a) Organization

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

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

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

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

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

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

(b) The Financial Reporting Entity

The Office is part of the Commonwealth. Its financial statements are intended to present the financial position, and changes in financial position, of only that portion of the governmental activities and the General Fund of the Commonwealth that is attributable to the transactions of the Office.

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

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

Notes to Financial Statements

June 30, 2015

(c) Basis of Presentation

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

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

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

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

The following is a reconciliation between the General Fund balance sheet and the statement of net position at June 30, 2015:

Fund balance	\$ 4,858,312
Add capital assets, net of accumulated depreciation, as they are not financial resources and, therefore, are not reported in the General Fund	2,069,688
Add Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and therefore, are not reported in the funds.	17,231,024
Less accrued compensated absences, Net pension liability and Christmas bonus, as they are not due and payable in the current period and, therefore, are not reported in the General Fund	<u>(157,986,918)</u>
Net position	<u>\$ (133,827,894)</u>

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The following is a reconciliation between the excess of revenues and transfers in over expenditures in the statement of General Fund revenues, expenditures, and changes in fund balance, and the change in net position in the statement of activities for the fiscal year ended June 30, 2015:

Excess of revenues and transfers in over expenditures	\$ 374,546
Less current year change in compensated absences that are recorded as a long-term liability in the government-wide financial statements	(107,648)
Less current year change in accrued Christmas bonus that is recorded as a long-term liability in the government-wide financial statements	(3,408)
Less current year depreciation and amortization, as the cost of assets is allocated over their useful lives in the statement of activities	(560,210)
Less loss on disposal of assets that were not capitalized in the General Fund	(105,977)
Less pension contributions which are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the statement of net position because the reported net pension liability is measured a year before the Office's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the statement of activities.	(6,534,824)
Add capital outlays reported as expenditures in the General Fund that are shown as capital assets in the statement of activities	<u>349,685</u>
Change in net position	<u>\$ (6,587,836)</u>

(d) Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place.

The General Fund, as a governmental fund, is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

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(2) Going Concern – Commonwealth of Puerto Rico

As described in note 1, the Office is an agency of the Commonwealth. The Commonwealth and several of its component units face significant risks and uncertainties, including liquidity risk. The risks and uncertainties facing the Commonwealth, together with other factors, have led the Commonwealth's management to conclude that there is substantial doubt as to the ability of the primary government and of various discretely presented component units, to continue as a going concern. The financial difficulties being experienced by the Commonwealth have significant adverse impacts on the Office. Detailed information about the Commonwealth's conditions and events that raise doubt about its ability to continue as a going concern and the corresponding remediation plans is disclosed in the notes of the Commonwealth's 2015 fiscal year audited financial statements.

(3) Summary of Significant Accounting Policies

(a) Capital Assets

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

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

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

(b) Compensated Absences

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

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The employees of the Office are granted thirty (30) days of vacation and eighteen (18) days of sick leave annually. Vacation may be accumulated in excess of the maximum permitted of sixty (60) and ninety (90) days, respectively. The employees have from January to June of each year to use any vacation or sick excess accumulated as of December of the previous year. If the employee chooses not to take the excess of vacation and sick during the assigned period they will lose the excess accumulated. 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, who have the right to such compensation up to the maximum allowed.

(c) *Deferred Outflows and Inflows of Resources*

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents an increase in of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Similarly, the Office reports deferred inflows of resources in the Statement of Net Position in a separate section following Liabilities. This separate financial statement element, deferred inflows of resources, represents a reduction of net position and resources that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

(d) *Fund Balance*

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

- Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. There was no nonspendable fund balance as of June 30, 2015.
- Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation. There was no restricted fund balance as of June 30, 2015.
- The Office's highest decision-making level of authority rests with the Commonwealth's Legislature. Fund balance is reported as committed when the Legislature passes a law that places specified constraints on how resources may be used. The law can modify or rescind a commitment of resources through passage of a new law.
- Resources that are constrained by the Office's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by the Comptroller.
- Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the Office for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the Office's policy to use restricted

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resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

(e) Net Position

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

- (i) Net investment in capital assets – This consists of capital assets, less accumulated depreciation and amortization.
- (ii) Restricted – This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Office's policy to use restricted resources first, then unrestricted resources when they are needed. There was no restricted net position at June 30, 2015.
- (iii) Unrestricted – This consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

(f) Commonwealth Appropriations

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

(g) Risk Management

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

The Office purchases commercial insurance to provide health benefits to its employees.

(h) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources 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.

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(i) Adoption of New Accounting Pronouncements

During the fiscal year ended June 30, 2015, the Office adopted the following new accounting standards issued by the GASB:

- (i) GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. See Note 4.
- (ii) GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. See Note 4.

(j) Accounting Pronouncements Issued but not yet Effective

The GASB has issued the following accounting standards that have effective dates after June 30, 2015:

- (i) GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting

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requirements for OPEB plans. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The Office is currently evaluating the impact of this statement.

- (ii) GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of GAAP. The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. The Office is currently evaluating the impact of this statement.
- (iii) GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. The Office is currently evaluating the impact of this statement.
- (iv) GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The Office is currently evaluating the impact of this statement.

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(k) Pensions

Financial reporting information pertaining to the Office participation in the Employee's Retirement System of the Government of Puerto Rico and its instrumentalities (ERS) is prepared in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by *GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*. For purposes of measuring the net pension (asset and) liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plans' fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(4) Changes in Accounting Principles

Effective July 1, 2014, the Office adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68* (the Statements). The Statements address accounting and financial reporting for pensions provided to the Office employees who participate in the Employee's Retirement System of the Government of Puerto Rico and its instrumentalities (ERS). The Statements also require various note disclosures (Note 10) and required supplementary information. As a result, beginning net position has been restated as follows:

	Governmental Activities
Beginning net position as previously reported at June 30, 2014	\$ (4,087,999)
Prior period adjustment – Implementation GASB 68 & 71	
Beginning net pension liability	(126,121,006)
Deferred outflows of resources – 2014 contributions	2,968,947
Total prior period adjustment	<u>(123,152,059)</u>
Net position as restated, July 1, 2014	<u>\$ (127,240,058)</u>

(5) Deposits

The Office follows the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, an *Amendment to GASB Statement No. 3*. Accordingly, the following is essential information about the deposits of the Office at June 30, 2015:

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

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During 2016, the Office opened a bank account with a private financial institution and transferred all the cash held with GDB to the private financial institution.

(6) Capital Assets

Capital assets activity for the year ended June 30, 2015 was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets, non-depreciable:				
Computer software being developed	\$ 227,641	75,840	(148,680)	154,801
Capital assets, depreciable:				
Equipment	998,427	19,499	(22,392)	995,534
Electronic equipment	2,840,885	104,502	(262,534)	2,682,853
Furniture	1,108,022	14,155	(892)	1,121,285
Computer software	1,805,375	127,520	—	1,932,895
Vehicles	366,187	52,513	—	418,700
Total capital assets, depreciable	<u>7,118,896</u>	<u>318,189</u>	<u>(285,818)</u>	<u>7,151,267</u>
Less accumulated depreciation and amortization for:				
Equipment	781,961	65,127	(22,392)	824,696
Electronic equipment	2,194,871	259,035	(260,893)	2,193,013
Furniture	956,648	51,783	(892)	1,007,539
Computer software	714,814	164,407	—	879,221
Vehicles	312,053	19,858	—	331,911
Total accumulated depreciation and amortization	<u>4,960,347</u>	<u>560,210</u>	<u>(284,177)</u>	<u>5,236,380</u>
Total capital asset depreciable	<u>2,158,549</u>	<u>(242,021)</u>	<u>(1,641)</u>	<u>1,914,887</u>
Capital assets, net	<u>\$ 2,386,190</u>	<u>(166,181)</u>	<u>(150,321)</u>	<u>2,069,688</u>

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(7) Long-Term liabilities

Long-term liability activity for the year ended June 30, 2015 was as follows:

	Beginning balance June 30, 2014	Additions	Reductions	Ending balance June 30, 2015	Due within one year	Long-term portion
Accrued compensated absences	\$ 10,564,287	5,282,773	(5,175,124)	10,671,936	533,989	10,137,947
Accrued Christmas bonus	393,668	397,075	(393,668)	397,075	397,075	—
Net pension liability	126,121,006	24,694,117	(3,897,216)	146,917,907	—	146,917,907
	<u>\$ 137,078,961</u>	<u>30,373,965</u>	<u>(9,466,008)</u>	<u>157,986,918</u>	<u>931,064</u>	<u>157,055,854</u>

(8) Lease Commitments

The Office rents its facilities through cancellable operating lease agreements in which the latest expires in 2018. Rent expense under such lease agreements for the year ended June 30, 2015 amounted to approximately \$2,290,000.

(9) Contingencies

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

(10) Pension Plan

(a) General Information about the Pension Plan

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

The ERS administers different benefits structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions may vary depending on a member's date of hire.

The benefits provided to members of the ERS are established by Commonwealth law and may be amended only by Legislature with Governor's approval. Act No. 3 of April 4, 2013 (Act No. 3), in conjunction with other recent funding and design changes, provided for a comprehensive reform of the ERS. The Commonwealth does not guarantee benefits at retirement age.

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Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990.
- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or after April 1, 1990 and on or before December 31, 1999.
- Members of Act No. 305 of September 24, 1999 (Act No. 305 or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013.

All regular employees hired for the first time on or after July 1, 2013 and former employees who participated in the defined benefit program and the System 2000 program and were rehired on or after July 1, 2013 become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013.

The assets of the defined benefit program, the defined contribution program and the Contributory Hybrid Program are pooled and invested by the ERS. Future benefit payments will be paid from the same pool of assets.

Benefits Provided – An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is \$10,000 or less, it shall be paid as a lump sum instead of as an annuity.

- 1) *Accrued Benefit as of June 30, 2013 for Act No. 447 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at

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least age 55 as of June 30, 2013) of average compensation in excess of \$6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to \$6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to \$6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of \$6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of \$6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

- 2) *Accrued Benefit as of June 30, 2013 for Act No. 1 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

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Contributions

The contribution requirement to the System is established by Commonwealth law and is not actuarially determined. The following are the member and employer contributions:

1) *Member Contributions*

Effective July 1, 2013, contributions by members are 10% of compensation. However, for Act No. 447 members who selected the Coordination Plan, the member contributions are 7% of compensation up to \$6,600 plus 10% of compensation in excess of \$6,600 during the 2013-2014 fiscal year and 8.5% of compensation up to \$6,600 plus 10% of compensation in excess of \$6,600 during the 2014-2015 fiscal year. Members may voluntarily make additional contributions to their hybrid contribution account.

2) *Employer Contributions (Article 2-116, as Amended by Law No. 116 of 2010 and Act No. 3)*

Effective July 1, 2011, employer contributions are 10.275% of compensation. For the next four fiscal years effective July 1, employer contributions will increase annually by 1% of compensation. For the five fiscal years thereafter, employer contributions will increase annually by 1.25% of compensation, reaching an employer contribution rate of 20.525% of compensation effective July 1, 2020.

3) *Supplemental Contributions from the Commonwealth's General Fund, Certain Public Corporations, and Municipalities (Act No. 3)*

Effective July 1, 2013, the System will receive a supplemental contribution of \$2,000 (of which \$800 corresponds to the pension plan and \$1,200 corresponds to the post employment healthcare benefits plan) each fiscal year for each pensioner (including beneficiaries receiving survivor benefits) who was previously benefitting as an Act No. 447 or Act No. 1 member while an active employee. This supplemental contribution will be paid by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries or by certain public corporations with their own treasuries or municipalities for their former employees.

4) *Additional Uniform Contribution (Act No. 32, as Amended)*

The additional uniform contribution will be certified by the external actuary of the System each fiscal year from 2014-2015 through 2032-2033 as necessary to avoid having the projected gross assets of the System, during any subsequent fiscal year, to fall below \$1 billion. The additional uniform contribution is to be paid by the Commonwealth's General Fund, public corporations with their own treasuries, and municipalities. The additional uniform contribution determined for fiscal years 2014, 2015 and 2016 was \$120 million, payable at the end of each fiscal year (June 30). The additional uniform contribution determined for fiscal year 2016-2017 is \$596 million, payable at the end of the fiscal year.

Additional information for the ERS is provided in its financial statements for the year ended June 30, 2015 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.

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

Notes to Financial Statements

June 30, 2015

(b) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Office recorded a liability of \$146,917,907 for the Office's proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Office's proportionate share of the total net pension liability was based on the ratio of the Office's actual contributions of \$2,968,947 paid to ERS for the year ended June 30, 2014 relative to the total contributions for allocation of \$607,378,006 from all participating employers. At June 30, 2014, the Office's proportionate share was 0.48881% which increased by 0.04199% when compared with the proportionate share as of June 30, 2013 of 0.44682%.

For the year ended June 30, 2015, the Office's recognized a pension expense of \$9,775,357, the Office's proportionate share of the total pension expense.

At June 30, 2015, the Office's reported deferred outflows of resources and deferred inflows of resources related to ERS pension benefits as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance of deferred outflows and inflows due to:		
Difference between expected and actual experience	\$ 225,370	—
Changes of assumptions	5,006,909	—
Net difference between projected and actual earnings on pension plan investments	—	928,269
Changes in proportion and differences between employer contributions and proportionate share of contributions	9,686,481	—
Employer contributions subsequent to the measurement date	3,240,533	—
Total	<u>\$ 18,159,293</u>	<u>928,269</u>

COMMONWEALTH OF PUERTO RICO
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Notes to Financial Statements

June 30, 2015

\$3,240,533 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2016. Other amounts reported as collective deferred (inflows) outflows of resources to be recognized in pension expense as follows:

Year ending June 30:	
2016	\$ 2,254,393
2017	2,254,393
2018	2,254,393
2019	2,254,393
2020	2,486,461
Thereafter	<u>2,486,458</u>
	<u>\$ 13,990,491</u>

(c) Actuarial Assumptions

Actuarial valuations of ERS involves estimates of the reported amount and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Significant actuarial assumptions and other inputs used to measure the total pension liability include:

Measurement Date	June 30, 2014
Actuarial cost method	Entry age normal
Asset valuation method	Market value of assets
Inflation	2.50 %
Total Payroll Growth	
Future Salary Increases	3.00% per year. No compensation increases are assumed until July 1, 2017 as a result of Act No. 66 and the current general economy.

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Notes to Financial Statements

June 30, 2015

Cost-of-Living Increases
Mortality Assumption

Pre-retirement Mortality: Projected on a generational basis using Scale AA. For members covered under Act 127, RP-2000 Employee Mortality Rates are assumed with blue collar adjustments for male and females, projected on a generational basis using Scale AA.

Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2007 to 2012 equal to 92% of the rates from UP-1994 Mortality Tables for males and 95% of the rates from the UP-1994 Mortality Table for Females.

Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females.

(d) Changes in Assumptions

Actuarial assumptions are revised periodically to more closely reflect both actual and anticipated future experience. Due to the change in the census collection date to the beginning of the fiscal year, rather than the end of the fiscal year, demographic gain/loss during the year is limited to the difference between actual and expected benefit payments, which arise from differences in termination and retirement activity and mortality versus expectations.

The June 30, 2014 actuarial valuation for ERS reflects an increase of approximately \$1.2 billion in the total pension liability of which approximately \$5.8 million were allocated to the Office because of the changes in assumptions related to the change in the discount rate as required by GASB Statement No. 67, *Financial Reporting for Pensions, an amendment of GASB Statement No. 25*, and an increase of approximately \$54 million in the total pension liability of which approximately \$263 thousand were allocated to the Office because of differences between expected and actual experience. With the enactment of Act No. 3 of 2013, termination, retirement and disability rates were added for new Act No. 3 members. Also, the compensation increase assumption was revised due to Act No. 66 of 2014.

For purposes of the 2016 actuarial valuation, the projected mortality improvement scale should be updated from Scale AA to Scale MP-2015, which was published by the Society of Actuaries in October 2015. Also, as Scale MP-2015 is a two-dimensional mortality improvement scale, the base mortality rates for the post-retirement mortality assumption should be set to the 2010 rates – the central year of the 2007 to 2012 ERS experience study upon which the rates were based.

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Notes to Financial Statements

June 30, 2015

For purposes of the 2017 actuarial valuation, the projected mortality improvement scale should be updated from Scale MP-2015 to Scale MP-2016, which was published by the Society of Actuaries in October 2016. Also, the 2017 valuation should reflect the impact over the salary growth assumption as a result of the Act No. 3-2017 extension of the Act No. 66-2014 salary freeze until July 1, 2021.

(e) Long-term Expected Rate of Return

The long-term expected rate of return on pension benefits investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and estimates of expected rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

	<u>Traget Allocation</u>	<u>Long-term expected rate of return</u>
Asset Class:		
Domestic equity	25 %	7 %
International equity	10	8
Fixed income	64	4
Cash	1	3
	<hr/>	
Total	100 %	

(f) Date of Depletion and Discount Rate

The asset basis for the depletion projection is the ERS' fiduciary net position. On this basis, the ERS' fiduciary net position was projected to be exhausted in fiscal year 2015.

The date of depletion projection of the actuarial report does not include any amounts from the additional uniform contribution required by Act No. 32 because of actual fiscal and budgetary financial difficulties, continued budget deficits and liquidity risks of the Commonwealth and the municipalities, and in the event that their financial condition does not improve in the near term.

The discount rate used to measure the ERS total pension liability was 4.29%.

COMMONWEALTH OF PUERTO RICO
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Notes to Financial Statements

June 30, 2015

(g) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Office as of June 30, 2015, calculated using the discount rate of 4.29%, as well as what the net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower (3.29%) or 1-percentage point higher (5.29%) than current rate:

	At 1% decrease (3.29%)	At current discount rate (4.29%)	At 1% increase (5.29%)
Net pension liability	\$ 166,670,753	146,917,907	130,558,904

(11) Other Post-Employment Benefits

The Office participates in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution (ERS MIPC). ERS MIPC is an unfunded cost sharing, multiple employer defined benefit other post-employment benefit plan sponsored by the Commonwealth. The ERS MIPC was created under Act No. 95 approved on June 29, 1963 (Act No 95-1963). ERS MIPC covers substantially all full-time employees of (1) the Primary Government and (2) certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own post-employment benefit plans.

Under the ERS MIPC, healthcare benefits to retirees are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share on a pay as you go basis. The contribution requirements are established by Act No. 95-1963. The Office is not required to contribute to the ERS MIPC and no allocation is made to the Office's financial statements for the contributions made by the Commonwealth.

Additional information for the ERS MIPC is provided in the ERS financial statements for the year ended June 30, 2015 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.

COMMONWEALTH OF PUERTO RICO
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Notes to Financial Statements
June 30, 2015

(12) General Fund – Fund Balance

At June 30, 2015, portions of the General Fund balances were committed and assigned for specific amounts as follows:

<u>Fund balance</u>	<u>Amount</u>
Committed:	
Repair of vehicles due to collision	\$ 374
Assigned:	
Professional services	<u>243,544</u>
	243,918
Unassigned	<u>4,614,394</u>
	<u>\$ 4,858,312</u>

(13) Subsequent Events

The Office has evaluated subsequent events from the General Fund balance sheet and Statement of Net Position date through January 29, 2019, the date that the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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

Required Supplementary Information (Unaudited)

Schedule of Employer's Share of Net Pension Liability and Related Ratios

Year ended June 30, 2015

	<u>2015*</u>
Employer's Proportion of the Net Pension Liability	0.48881 %
Employer's Proportionate Share of the Net Pension Liability	\$ 146,917,907
Employer's Covered-Employee Payroll	24,175,133
Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	607.72 %
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	0.27 %

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
 (An Agency of the Commonwealth of Puerto Rico)
 Required Supplementary Information (Unaudited)
 Schedule of Employer's Contributions
 Year ended June 30, 2015

<u>Date</u>	<u>Contractually required contribution</u>	<u>Contributions in relation to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Employer's covered employee payroll</u>	<u>Contributions as a% of covered employee payroll</u>
June 30, 2014	\$ 2,968,947	2,968,947	—	\$ 24,175,133	12.28 %
June 30, 2015	3,240,533	3,240,533	—	24,397,683	13.28

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER

(An Agency of the Commonwealth of Puerto Rico)

Required Supplementary Information (Unaudited)

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

Year ended June 30, 2015

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual amounts (Budgetary basis)</u>	<u>Variance- favorable (unfavorable)</u>
Revenue:				
Miscellaneous income	—	—	835	835
Interest income	\$ —	—	6,610	6,610
	<u>—</u>	<u>—</u>	<u>7,445</u>	<u>7,445</u>
Expenditures:				
Salaries and payroll-related expenditures	32,702,546	32,484,899	32,243,219	241,680
Facilities and payments of public services	859,000	859,000	795,686	63,314
Purchased services	3,335,000	3,400,100	3,316,314	83,786
Transportation expenditures	1,633,608	1,633,608	1,564,092	69,516
Professional services	1,085,756	1,085,756	1,018,707	67,049
Other expenditures	202,000	212,900	210,159	2,741
Materials and supplies	419,090	404,090	390,684	13,406
Capital outlays	57,000	223,247	217,547	5,700
Announcements and media communications required by law	<u>21,000</u>	<u>11,400</u>	<u>6,038</u>	<u>5,362</u>
	40,315,000	40,315,000	39,762,446	552,554
Other financing sources – transfers in:				
Commonwealth appropriations	<u>40,315,000</u>	<u>40,315,000</u>	<u>40,315,000</u>	<u>—</u>
Excess of revenue and other financing sources over expenditures	\$ <u>—</u>	<u>—</u>	<u>559,999</u>	<u>559,999</u>

See accompanying independent auditors' report and notes to required supplementary information.

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)
Required Supplementary Information (Unaudited)
Notes to Required Supplementary Information (Unaudited)
Year ended June 30, 2015

(1) Changes of Benefit Terms and Assumptions

There were no benefit or assumption changes adopted since the last actuarial valuation that significantly affect the trends in the accompanying pension schedules.

(2) Budgetary Control

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

- The Office prepares its annual budget and submits it to the Legislature of the Commonwealth of Puerto Rico for its approval.
- The budget is approved on the basis of a global assignment.
- The budget is prepared using the modified accrual basis of accounting, except for encumbrances, as explained below.

The budgeted revenue presented in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Non-GAAP Budgetary Basis, consisted of a Legislative Appropriation, for the year ended June 30, 2015 for operational appropriations of \$40,315,000.

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

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

Change in Fund Balance according to the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual Non-GAAP Budgetary Basis – General Fund	\$ 559,999
Plus current year encumbrances not recorded as expenditures under the modified-accrual basis	243,544
Less expenditures recorded against unencumbered appropriations carried forward from prior year	(235,219)
Less prior year encumbrances recorded as expenditures under the modified accrual basis	<u>(193,778)</u>
Change in Fund Balance according to the Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund	<u>\$ 374,546</u>

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



STATISTICAL SECTION

CHART 1 - OPERATIONS BUDGET

The table and chart that follow indicate the composition of the budget by salaries, transportation expenditures, professional services, and others, with respect to the total legislative appropriations. In addition, present a comparative picture for two consecutive fiscal years, 2013-14 and 2014-15.

DESCRIPTION	2014-15		2013-14	
	APPROPRIATION	PERCENT	APPROPRIATION	PERCENT
Salaries and Payroll Related Expenditures	\$32,484,899	80.5	\$34,511,500	80.3
Transportation Expenditures	1,633,608	4.0	1,746,000	4.0
Other Purchased Services	1,114,384	2.8	1,153,601	2.7
Professional Services	1,085,756	2.7	1,720,500	4.0
Facilities and Payments of Public Services	859,000	2.1	859,000	2.0
Rent	2,285,716	5.7	2,261,399	5.3
Materials and Supplies	404,090	1.0	456,000	1.1
Other Expenditures	224,300	0.6	235,000	0.5
Capital Outlays	223,247	0.6	57,000	0.1
TOTAL	\$40,315,000	100	\$43,000,000	100

CHART 2 - HUMAN CAPITAL

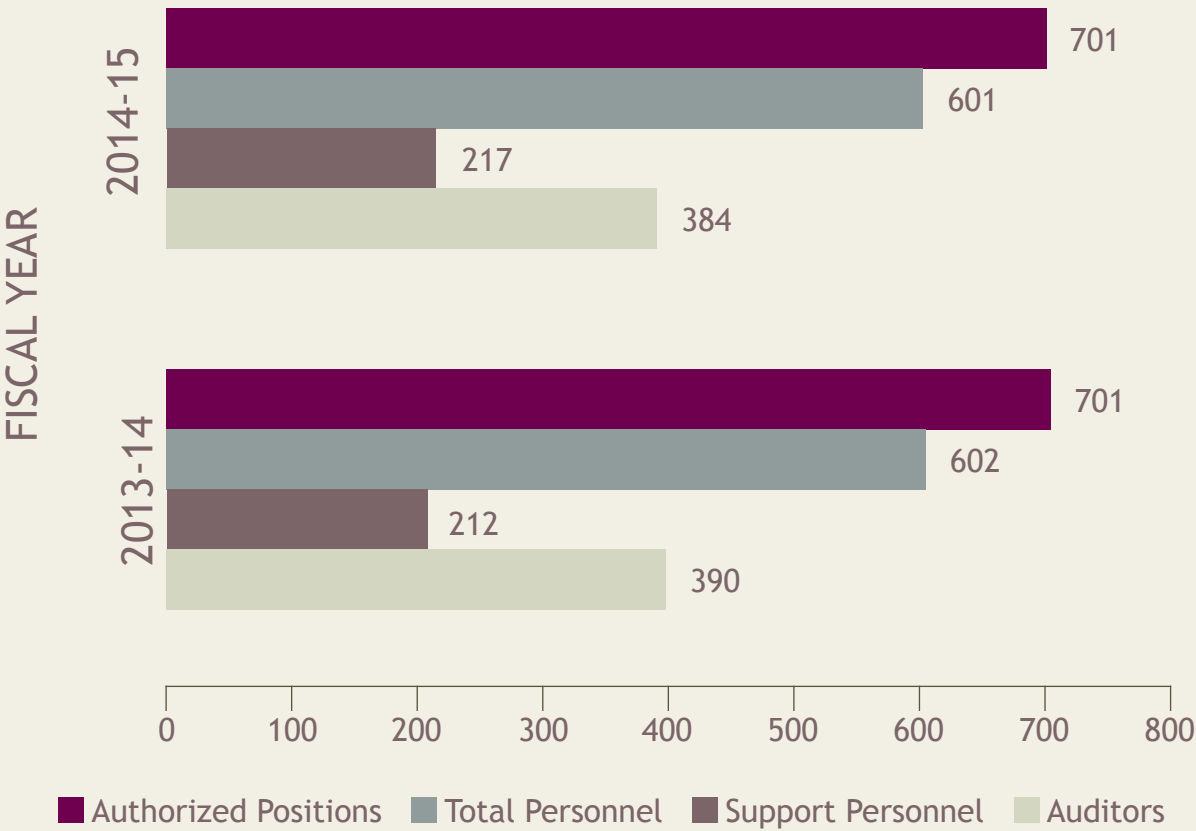


CHART 3 - TIME DISTRIBUTION

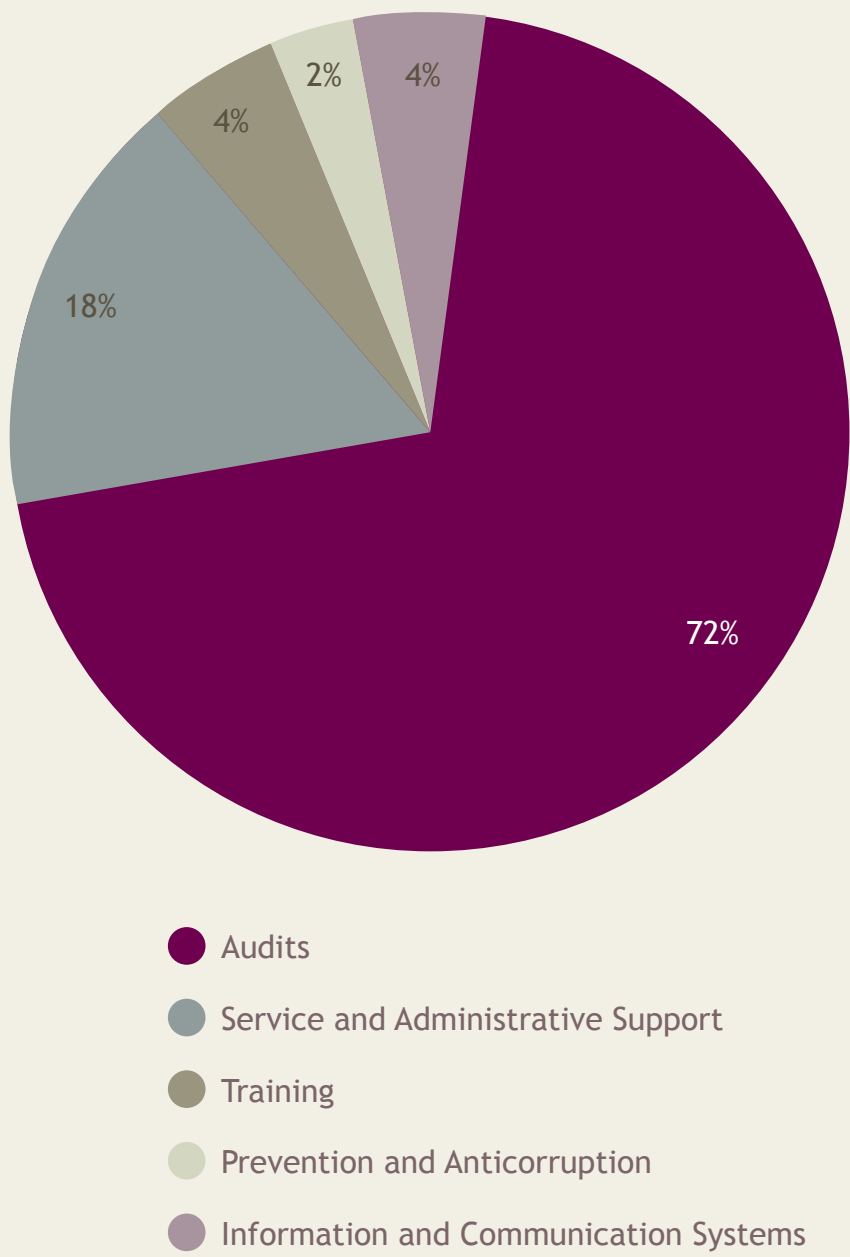


CHART 4 - MOST IMPORTANT FINDINGS INCLUDED IN AUDIT REPORTS

CLASSIFICATION	QUANTITY
Purchasing, accounts payable and disbursements	484
Planning-Administrative controls	461
Cash	376
Professional services	262
Building and improvements	233
Property	182
Personnel	99
Others	98
Application controls	42
Donations	42
General controls-Computers	31
Local Area Network (LAN) controls	21
Revenues and receivables	19
Investments	11
Microcomputer controls	4

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

Comptrollership At Your Services...

INTERNAL ANTICORRUPTION POLICY



STATEMENT POLICY

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

PHILOSOPHY OF THE ORGANIZATION

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

INTERNAL CONTROL POLICY

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

PREVENTION PHASE

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

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

INTERNAL CONTROLS: The managerial personnel is responsible for monitoring that the controls

established in their respective working areas are effective, efficient, and updated. Our internal auditors periodically audit processes in order to determine if the controls are adequate and efficient.

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

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

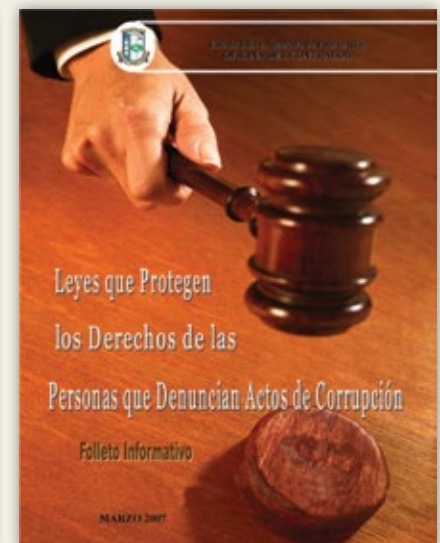
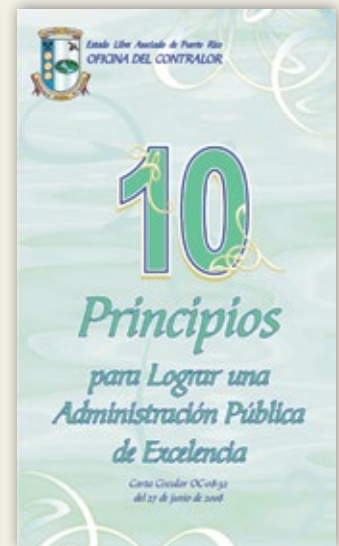
CONFIDENTIALITY

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

CONTINUOUS EDUCATION

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

REFERENCE GUIDES PUBLISHED



COMPTROLLERSHIP AT YOUR SERVICES...

