



LEADING BUSINESS SOLUTIONS

Certified Public Accountants and Business Advisors

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE FAMILY**

**INDEPENDENT AUDITORS' REPORT AND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
(WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED UNDER TITLE 2 U.S CODE OF FEDERAL
REGULATIONS PART 200)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2022

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

FISCAL YEAR ENDED JUNE 30, 2022

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(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

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LEADING BUSINESS SOLUTIONS

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INDEPENDENT AUDITORS' REPORT

Honorable Cieni Rodríguez-Troche
Secretary of the Department of the Family
San Juan, Puerto Rico

Opinion

We have audited the accompanying Statement of Cash Receipts and Disbursements ("the Statement") of the Department of the Family of the Commonwealth of Puerto Rico ("the Department") for the year ended June 30, 2022, and the related notes to the financial statement.

In our opinion, the Statement referred to above presents fairly, in all material respects, the cash receipts and disbursements of the Department of the Family of the Commonwealth of Puerto Rico as of June 30, 2022, in accordance with the cash basis of accounting described in Note A.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

We draw attention to Note A of the Statement, which describes the basis of accounting. The Statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the cash basis of accounting described in Note A; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the Statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.



Auditors' Responsibilities for the Audit of the Statement

Our objectives are to obtain reasonable assurance about whether the Statement is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the Statement.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the Statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the Statement.
- Obtain an understanding of internal control relevant to the audit 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 Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the Statement.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other information

Our audit was conducted for the purpose of forming an opinion on the Department's Statement as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirement for Federal Awards*, and is not a required part of the Statement of the Department.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the Statement. Such information has been subjected to the auditing procedures applied in the audit of the Statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Statement or to the Statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic Statement taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2024, on our consideration of the Department's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of this report is to describe the scope of our tests of internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

DLS

D' LEADING BUSINESS SOLUTIONS, LLC.
Certified Public Accountants and Business Advisors
License Number INC-1, expires on December 1, 2025

San Juan, Puerto Rico
February 16, 2024

Stamp number **E525285**
of the Puerto Society
has been affixed to the final of this report.



COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDED JUNE 30, 2022

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Receipts			
Grants and contributions	\$ -	\$4,051,714,563	\$4,051,714,563
Legislative appropriations and other assignments	313,436,592		313,436,592
Total Receipts	<u>313,436,592</u>	<u>4,051,714,563</u>	<u>4,365,151,155</u>
Disbursements			
Grants, donations and other distributions	99,787,796	3,849,218,615	3,949,006,411
Salaries and fringe benefits	118,492,943	62,178,820	180,671,763
Contracted and other services	28,581,647	19,162,527	47,744,174
Professional services	8,160,690	29,835,180	37,995,870
Facilities and utilities	12,974,827	2,848,522	15,823,349
Capital outlays	1,150,299	4,128,213	5,278,512
Operating transfers	4,871,192	8,395,906	13,267,098
Materials	996,102	765,783	1,761,885
Transportation and subsistence	1,561,374	692,792	2,254,166
Other expenses	6,165,591	216,554	6,382,145
Total Disbursements	<u>282,742,461</u>	<u>3,977,442,912</u>	<u>4,260,185,373</u>
Excess of cash receipts over disbursements	<u>\$ 30,694,131</u>	<u>\$ 74,271,651</u>	<u>\$ 104,965,782</u>

See accompanying notes to the Statement of Cash Receipts and Disbursements

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS FISCAL YEAR ENDED JUNE 30, 2022

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The Department of the Family ("the Department") is an executive agency of the Commonwealth of Puerto Rico ("the Commonwealth") created by Act No. 171 of June 30, 1968 and amended by the Reorganization Plan Number 1 of July 28, 1995. The Department is responsible for carrying out the programs directed towards the solution or mitigation of social problems in Puerto Rico, including social services programs with emphasis on the rehabilitation of individuals and the interrelationships between individuals, families, and the community.

Through its actions or in coordination with other government or private organizations, the Department carries out programs of direct economic aid to needy persons, service for the welfare of children, youths, and disabled persons, rehabilitation and training programs, community improvement projects, programs for employing unemployed individuals, guidance programs for individuals and families, and any other activity which leads to the social improvement of individuals as well as of families and communities. The Secretary of the Department is appointed by the Governor of the Commonwealth.

The Department, which has ten regional offices and at least one service office in each municipality of Puerto Rico, is organized as follows:

1. Secretariat, which is responsible for the fiscal control, general administration, planning, coordination, supervision, and evaluation of the operations of the Department and its components. The Secretariat is responsible for documenting, evaluating, and adjudicating all disability claims made to the Social Security - Disability Insurance by insured workers, their widows (if between 50 and 59 years old), and disabled dependents that are at least 18 years old. Additionally, the Secretariat facilitates the procedures to obtain information and provides counseling to claimants.
2. The Families and Children Administration, is responsible for promoting and supporting the efforts of individuals, families, and communities contributing to its development and that of society. Accordingly, it facilitates social, educational, remedial, and preventive services directed to achieving better and more effective participation, equality, and social justice.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. The Child Support Enforcement Administration, which is responsible for procuring the compliance of i) non-custodial parents of minors under 21 years of age; ii) the descendent of individuals older than 60 years of age; and iii) the individuals legally responsible for contributing to the support and welfare of the children of elderly parents and, safeguarding their rights to receive alimony.
4. The Socioeconomic Development Administration, which is responsible for facilitating: i) the development of opportunities for socially and economically disadvantaged individuals to assist them in achieving self-sufficiency and integration to the social system in a productive manner and ii) the familiar and community common living.
5. The Integral Care and Development of the Children Administration, which is responsible for ensuring the care and development of minors who participate in the Head Start Program and the Child Care and Development Program.

The Secretary of the Department has oversight responsibilities over the Corporation of Industries of the Blind, Mentally Retarded, and Other Disabled People (“the CIB”), which is responsible for contributing to the social and economic rehabilitation of blind and disabled individuals. Although the Department has oversight responsibilities over the CIB, it is not included in the accompanying Statement since its operations are subject to a separate financial or single audit, as applicable.

Basis of presentation

The accounts of the Department are organized in two fund types: A General Fund and a Special Revenue Fund. The Department maintains appropriations for several individual state and federal funds within each fund type. The General Fund is the general operating fund used to account for the funds appropriated by the Legislature of the Commonwealth of Puerto Rico and is the fund through which most functions are typically financed. The Special Revenue Fund accounts for federal financial assistance programs funded by the Federal Government which are legally restricted to expenditures for specific purposes.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of accounting

The Statement of Cash Receipts and Disbursements has been prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under the cash basis of accounting, cash receipts and disbursements are recorded when cash is received or disbursed, respectively. Noncash transactions are not recognized in the Statement. Because the Department participates in a pooled cash arrangement as further discussed herein, cash receipts from Commonwealth appropriations are considered received when the related disbursement is made, except for cash receipts related to indirect cost and special accounts, which are recognized when cash is received.

The timing of cash receipts from the Federal Government may differ from the date federally funded payments are made. The Department draws amounts from the pooled cash account when federal funds have not yet been received and the same is replenished once the federal funds are received. All these factors in cash receipts recognition result in an excess of cash receipts over (under) disbursements at year-end.

Inventories

The Department purchases office, printing supplies, and other items for operational purposes. The cost of purchases is recorded as a cash disbursement in the financial statement.

Property and equipment

Property and equipment acquired are recorded as cash disbursements in the financial statement.

Risk management

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

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Claims and judgments

The resulting liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded when paid.

**NOTE B - CASH WITH FINANCIAL INSTITUTIONS AND WITH FISCAL AGENT
(DEPARTMENT OF THE TREASURY OF THE COMMONWEALTH OF PUERTO
RICO)**

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

NOTE C - LEASE COMMITMENTS

The Department is a lessee under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations and, therefore, neither the assets nor the liabilities of the lease agreements are reflected in the accounting records. Certain leased property is from the Puerto Rico Public Buildings Authority ("the Authority"), a component unit of the Commonwealth of Puerto Rico. The Office of Management and Budget, along with the Puerto Rico Treasury Department are responsible for making these payments to the Authority on behalf of the Department. Rental expenses are recognized as disbursements when paid. Total approximate rental payments made during the year ended June 30, 2022, amounted to \$25,475,644 of which approximately \$6.3 million are included as facilities and utilities disbursements and approximately \$19.1 million are included as contracted and other services.

NOTE D - PENSION REFORM AND PLAN DESCRIPTION

(i) Pension Reform

On January 18, 2022, the Title III Court entered an order confirming the Title III Plan of Adjustment (the Commonwealth Plan of Adjustment) for the Commonwealth, the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), and the Puerto Rico Public Buildings Authority (PBA).

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTE D – PENSION REFORM AND PLAN DESCRIPTION – (CONTINUED)

On March 15, 2022 (the Effective Date), the Commonwealth Plan of Adjustment became effective. The Commonwealth Plan of Adjustment preserves all accrued pension benefits for current retirees and employees at ERS. However, upon the Effective Date, certain cost-of-living adjustments (COLAs) and other features of the ERS pension plans were eliminated or modified consistent with the terms of the Commonwealth Plan of Adjustment.

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-4617 in order to convey to the Primary Government's agencies, public corporations and municipalities, the new implementation procedures to adopt, effective, July 1, 2017, the new PayGo mechanism for all of the Commonwealth's Retirement Systems

With the start of fiscal year 2018, employers' contributions, contributions ordered by special laws, and the Additional Uniform Contribution were all eliminated and replaced by a monthly PayGo charge that will be collected from the aforementioned government entities to pay retirees. The Commonwealth Retirement Systems will determine and administer the payment amount per retiree that will be charged to each agency, public corporation, and municipality. The PayGo charge must be submitted to the Treasury Department before the 15th day of each month along with the individual contributions withheld from active employees. As liquid retirement funds become depleted, the PayGo charge is expected to increase.

On June 23, 2017, the Legislative Assembly approved certain other assignments for fiscal year 2018 under Joint Resolution 188, which among other things, ordered the Commonwealth's Retirement Systems to liquidate their assets and pass the net proceeds to the Puerto Rico Treasury Department.

Act 106-2017, enacted on August 23, 2017, approved a substantial pension reform for all of the Commonwealth's Retirement Systems, including Employee Retirement System ("ERS"). This reform modified most of ERS's activities and effectively restructured ERS's operations.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTE D – PENSION REFORM AND PLAN DESCRIPTION – (CONTINUED)

Effective on July 1, 2017, ERS's previously existing pension programs administered by ERS under Act No. 447 of 1951 (as amended) were terminated and transitioned to a PayGo system, in which ERS stopped receiving contributions from employers or plan participants and is no longer managing contributions on behalf of participants. Act 106-2017 created the legal framework so that the Commonwealth can make benefit payments to current pensioners. Under the PayGo system, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the applicable employers (including the Authority).

Act 106-2017 also terminated the previously existing pension programs for ERS participants as of June 30, 2017, and created the New Defined Contribution Plan for existing active members and new employees hired on or after July 1, 2017.

This plan is similar to a 401(k) and is managed by a private entity. Future benefits will not be paid by ERS.

Under the New Defined Contribution Plan, members of the prior programs and new governmental employees hired on and after July 1, 2017, will be enrolled in the New Defined Contributions Program that will be selected by the Retirement Board. As of June 22, 2020, the accumulated balance on the accounts of the prior pension programs were transferred to the individual member accounts in the New Defined Contribution Plan.

Act 106-2017, among other things, amended Act No. 447 with respect to ERS's governance, funding, and benefits for active members of the actual program and newly hired members. Under Act 106-2017, ERS's Board of Trustees was eliminated, and a new Retirement Board was created. The Retirement Board is currently responsible for governing all of the Commonwealth's Retirement Systems.

Act 106-2017 also ordered a suspension of ERS's loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board's discretion, the administration of ERS benefits may be managed by a third-party service provider. The employees of ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8 of February 8, 2017, known as the *Law for the Administration and Transformation of Human Resources in the Government of Puerto Rico* (Act No. 8 of 2017).

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTE D – PENSION REFORM AND PLAN DESCRIPTION (CONTINUED)

In addition, Act 106-2017 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating an incentives, opportunities and retraining program for public workers.

(ii) Pension Benefits Transferred

Before July 1, 2017, ERS administered different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program (the “Defined Benefit Program”), a defined contribution program (the “System 2000 Program”) and a contributory hybrid program (the “Contributory Hybrid Program”).

Benefit provisions vary depending on a member’s date of hire. Substantially all full-time employees of the Commonwealth and its instrumentalities (48 Commonwealth agencies, 78 municipalities, and 39 public corporations, including the Authority) are covered by ERS. Effective July 1, 2017, the Commonwealth’s General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the applicable employers (including the Authority). As of July 1, 2017, ERS stopped making pension payments to retirees. However, all government employers (including the Authority) are required to reimburse the Commonwealth for benefits paid on account of their employees through the PayGo fee. Since July 1, 2017, ERS continues to help manage the administrative matters of the pension benefits that are being paid by the Commonwealth. The aforementioned defined benefits had been paid by ERS until June 30, 2017.

Before August 23, 2017, membership was mandatory for all regular, appointed, and temporary employees of the Commonwealth at the date of employment in ERS’s prior programs. After that date, membership continues to be mandatory in the New Defined Contribution Plan created by Act 106-2017.

Membership continues to be optional for the Governor of the Commonwealth, Commonwealth secretaries, heads of public agencies and instrumentalities, among others.

The benefits provided to members of ERS are established by Commonwealth law and may be amended only by law. Act No. 3, in conjunction with other recent funding and design changes, provided for a comprehensive reform of ERS.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTE D – PENSION REFORM AND PLAN DESCRIPTION (CONTINUED)

This summary of ERS's pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. Please note that all eligibility requirements and benefit amounts shall be determined in strict accordance with applicable law and regulations; these benefits were not changed or amended with the enactment of Act 106-2017.

Certain benefit provisions are different for the three groups of members who entered 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 are generally those members hired on or after April 1, 1990, and on or before December 31, 1999 (together with Act No. 447 participants, the Defined Benefit Program).
- Members of Act No. 305 (or System 2000) are generally those members hired on or after January 1, 2000, and on or before June 30, 2013 (the System 2000 Program).

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 as of June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013.

Before July 1, 2017, the assets of the Defined Benefit Program, the System 2000 Program, and the Contributory Hybrid Program were pooled and invested by ERS. Each member has a nonforfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

After July 1, 2017, future benefit payments will be made by the Commonwealth and the New Defined Contribution Program is being administered by a private third party.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTE D – PENSION REFORM AND PLAN DESCRIPTION (CONTINUED)

Defined Benefit Program

Pursuant to Act No. 447 of May 15, 1951, as amended, all regular employees of the Authority hired before January 1, 2000, and less than 55 years of age at the date of employment became members of ERS, under the Defined Benefit Program, as a condition of their employment. No benefits are payable if the participant receives a refund of their accumulated contributions.

The Defined Benefit Program provides retirement, death, and disability benefits pursuant to legislation enacted by the Legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after 10 years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least 10 years of service to receive non-occupational disability benefits.

Prior to July 1, 2017, members who attained 55 years of age and completed at least 25 years of creditable service, or members who have attained 58 years of age and have completed 10 years of creditable service, were entitled to an annual benefit payable monthly for life. The amount of the annuity was 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. The annuity for which the participant was eligible was limited to a minimum of \$500 per month and a maximum of 75% of the average compensation, as defined.

Participants who completed 30 years of creditable service were entitled to receive the Merit Annuity. Under the Merit Annuity, participants who had not attained 55 years of age received 65% of the average compensation, as defined; otherwise, they received 75% of the average compensation, as defined.

Prior to July 1, 2017, Commonwealth legislation required employees to contribute 10% of their monthly gross salary to the Defined Benefit Program.

Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the Retirement System effective April 1, 1990.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTE D – PENSION REFORM AND PLAN DESCRIPTION (CONTINUED)

These changes consisted principally of an increase in the retirement age from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the Merit Annuity for participating employees who have completed 30 years of creditable service.

System 2000 Program

On September 24, 1999, the Legislature enacted Act No. 305, which amended Act No. 447, to establish the System 2000 Program. In addition, on April 4, 2013, the Legislature enacted Act No. 3, which amended the provisions of the different ERS benefit structures, including the Defined Benefit Program.

The Legislature enacted Act No. 305 on September 24, 1999, which amended Act No. 447 to create, among other things, the System 2000 Program, a new benefit structure, similar to a cash balance plan (such as a defined contribution plan). All regular employees hired for the first time on or after January 1, 2000, and former employees who participated in the Defined Benefit Program, received a refund of their contributions, and were rehired on or after January 1, 2000, became members of the System 2000 Program as a condition to their employment. In addition, employees who on December 31, 1999, were participants of the Defined Benefit Program had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the Defined Benefit Program plus interest thereon to the System 2000 Program.

Prior to July 1, 2017, Commonwealth legislation required employees to contribute 10% of their monthly gross salary to the System 2000 Program. Employee contributions were credited to individual accounts established under the System 2000 Program. Participants had three options to invest their contributions to the System 2000 Program. Investment income was credited to the participant's account semiannually.

Under the System 2000 Program prior to July 1, 2017, contributions received from participants were pooled and invested by ERS, together with the assets corresponding to the Defined Benefit Program. Future benefit payments under the Defined Benefit Program and the System 2000 Program were paid from the same pool of assets.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTE D - PENSION REFORM AND PLAN DESCRIPTION (CONTINUED)

As a different benefit structure, the System 2000 Program was not a separate plan, and the Commonwealth does not guarantee benefits at retirement age. Corresponding employers' contributions were used by ERS to reduce the unfunded status of the Defined Benefit Program.

The System 2000 Program reduced the retirement age from 65 years to 60 years for those employees who joined the plan on or after January 1, 2000.

Upon retirement, the balance in each participant's account was used to purchase an annuity contract, which provided for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of \$10,000 or less at retirement received a lump-sum payment. In case of death, the balance in each participant's account was paid in a lump sum to the participant's beneficiaries. Participants had the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

Contributory Hybrid Program

On April 4, 2013, the Legislature enacted Act No. 3, which amended Act No. 447, Act No. 1 and Act No. 305, to establish, among other things, a defined contribution program similar to the Contributory Hybrid Program to be administered by ERS. 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 on June 30, 2013, were participants of previous plans will become part of the Contributory Hybrid Program. Act No. 3 froze all retirement benefits accrued through June 30, 2013, under the Defined Benefit Program, and thereafter, all future benefits accrued under the defined contribution formula used for the System 2000 Program participants.

Participants in the Defined Benefit Program who as of June 30, 2013, were entitled to retire and receive some type of pension, could have retired on any later date, and received the annuity corresponding to their retirement program, as well as the annuity accrued under the Contributory Hybrid Program.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTE D - PENSION REFORM AND PLAN DESCRIPTION (CONTINUED)

Participants who as of June 30, 2013, did not reach the age of 58 and completed 10 years of service or did not reach the age of 55 and completed 25 years of service could have retired depending on the new age limits defined by the Contributory Hybrid Program and received the annuity corresponding to their retirement program, as well as the annuity accrued under the Contributory Hybrid Program.

Participants in the System 2000 Program who as of June 30, 2013, were entitled to retire because they were 60 years of age could have retired on any later date and received the annuity corresponding to their retirement program, as well as the annuity accrued under the Contributory Hybrid Program. Participants in the System 2000 Program who as of June 30, 2013, did not reach the age of 60 could have retired depending on the new age limits defined by the Contributory Hybrid Program and received the annuity corresponding to their retirement program, as well as the annuity accrued under the Contributory Hybrid Program.

In addition, Act No. 3 amended the provisions of the different benefit structures under the Retirement System, including, but not limited to, the following:

1. Increased the minimum pension for current retirees from \$400 to \$500 per month.
2. The retirement age for the Act No. 447 participants was gradually increased from age 58 to age 61.
3. The retirement age for the active System 2000 Program participants was gradually increased from age 60 to age 65.
4. Eliminated the "Merit Annuity" available to participants who joined the Retirement System prior to April 1, 1990.
5. The retirement age for new employees was increased to age 67.
6. The employee contribution rate was increased from 8.275% to 10%.
7. For the System 2000 Program participants, the retirement benefits were no longer paid as a lump sum distribution; instead, they were paid through a lifetime annuity.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTE D - PENSION REFORM AND PLAN DESCRIPTION (CONTINUED)

8. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from \$600 to \$200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings were contributed to ERS.
9. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
10. Survivor benefits were modified.

Prior to July 1, 2017, employee contributions were credited to individual accounts established under the Contributory Hybrid Program. In addition, a mandatory contribution equal to or less than point twenty five percent (0.25%) was required for the purchase of disability insurance.

Upon retirement prior to July 1, 2017, the balance in each participant's account was used to purchase an annuity contract, which provided for a monthly benefit during the participant's life. In case of the pensioner's death, the designated beneficiaries continued receiving the monthly benefit until the contributions of the participant were completely consumed. In the case of participants in active service, a death benefit was paid in one lump sum in cash to the participant's beneficiaries. Participants with a balance of less than \$10,000 or less than five years of computed services at retirement received a lump-sum payment. In case of permanent disability, the participants had the option of receiving a lump sum or purchasing an annuity contract.

For the fiscal year ended June 30, 2014, the Authority was required to contribute 12.275% of each participant's gross salary under the different benefit structures. ERS used these contributions to increase its level of assets and to reduce the actuarial deficit.

Beginning on July 1, 2014, and up until June 30, 2016, the employer's contribution rate was annually increased by one percent (1%). Beginning July 1, 2016, and up until June 30, 2017, the employer's contribution rate that is in effect on June 30 of every year was annually increased on every successive July 1st by one-point twenty-five percent (1.25%). Beginning July 1, 2017, the employer's contribution is established through the PayGo fee as determined by AAFAF under Act 106-2017.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTE D - PENSION REFORM AND PLAN DESCRIPTION (CONTINUED)

Additional information of ERS is provided in its financial statements for the year ended June 30, 2022, a copy of which can be obtained from the administrator of the Retirement System.

NOTE E - COMPENSATED ABSENCES

Regular employees accrue vacation and sick leave of 2.5 days and 1.5 days per calendar month, respectively. The allowed maximum number of accumulated days of regular vacation and sick leave is 60 days and 90 days, respectively. The expense of regular vacations and sick leave is recorded when paid.

NOTE F - INDIRECT COST ALLOCATION PLAN

The United States Department of Health and Human Services (the "HHS"), the Audit Cognizant Agency, approves the rates used by the Department to allocate qualified types of expenditures from state funds to federal financial assistance programs. For fiscal years 2018 through 2022, provisional rates in the indirect cost allocation plan approved by HHS ranged from 2.8% to 19.5% among the different federal programs.

NOTE G - CONTINGENCIES

Litigation

The Department is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. According to the laws of the Commonwealth, the Department is fully represented by the Puerto Rico Department of Justice in defense of all legal cases against it. Any claims with negative financial impact would be paid from the General Fund of the Commonwealth, with no effect on the budget or resources of the Department.

Federal awards

The Department participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantors. If expenditures are disallowed due to noncompliance with grant program regulations, the Department may be required to reimburse the grantors.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTE G – CONTINGENCIES (CONTINUED)

The Independent Auditors' Reports in the accompanying compliance section on pages 25 through 30 disclose several material weaknesses and significant deficiencies over both financial reporting and programmatic controls including instances of noncompliance with applicable laws and regulations.

The Department is also audited by the Office of the Comptroller for Puerto Rico (the "Comptroller") and the Office of the Inspector General (OIG) of the U.S. Department of Health and Human Services (HHS). Management understands that any adjustments necessary as a result of these audits are recorded prospectively.

NOTE H - PLAN OF ADJUSTMENT FOR THE COMMONWEALTH

Prior to March 15, 2022, the Commonwealth and many of its component units suffered a fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, an economic recession that persisted since 2006, prior liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations. As the Commonwealth's tax base shrunk and its revenues were affected by prevailing economic conditions, an increasing portion of the Commonwealth's general fund budget consisted of health care and pension-related costs and debt service requirements through fiscal year 2019, resulting in reduced funding for other essential services. The Commonwealth's historical liquidity constraints, among other factors, adversely affected its credit ratings and its ability to obtain financing at reasonable interests rates.

On June 30, 2016, the United States Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) to address these problems, which included the establishment of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), an in-court restructuring process under Title III of PROMESA, and an out-of-court restructuring process under Title VI of PROMESA. Thereafter, the Commonwealth and other governmental entities including, the Puerto Rico Sales Tax Financing Corporation (COFINA), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), the Puerto Rico Highways and Transportation Authority (HTA), the Puerto Rico Electric Power Authority (PREPA), and the Public Building Authority (PBA) initiated proceedings under Title III, and the Government Development Bank for Puerto Rico (GDB), the Puerto Rico Infrastructure Financing Authority (PRIFA), and the Puerto Rico Convention Center District Authority (PRCCDA) initiated proceedings under Title VI, each at the request of the Governor to restructure or adjust their existing debt.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTE H - PLAN OF ADJUSTMENT FOR THE COMMONWEALTH – (CONTINUED)

On July 30, 2021, the Oversight Board—as representative to the Commonwealth, ERS, and PBA in their respective Title III cases—filed its Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 17629] (the Seventh Amended Plan) and a corrected disclosure statement related thereto [ECF No. 17628], which was approved by the United States District Court for the District of Puerto Rico (the Title III Court).

On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof.

As of the Effective Date, the Commonwealth Plan of Adjustment reduced the Commonwealth's total funded debt obligations from approximately \$34.3 billion of prepetition debt to only approximately \$7.4 billion, representing a total debt reduction of 78%. This debt reduction will also reduce the Commonwealth's maximum annual debt service (inclusive of COFINA debt service) from approximately \$4.2 billion to \$1.15 billion, representing a total debt service reduction of 73%. Also as of the Effective Date, all of the legacy Commonwealth general obligation bonds, ERS bonds, and PBA bonds were discharged, and all of the Commonwealth, ERS, and PBA obligations and guarantees related thereto were discharged. In addition, all Commonwealth laws that required the transfer of funds from the Commonwealth to other entities are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. Importantly, effectuating the Commonwealth Plan of Adjustment provides a path for Puerto Rico to access the credit markets and develop balanced annual budgets.

A critical component of the Commonwealth Plan of Adjustment is the post-Effective Date issuance of new general obligation bonds (the New GO Bonds) and contingent value instruments (CVIs) that provides recoveries to GO and PBA bondholders, as well as holders of clawback claims against the Commonwealth and certain of its component units and instrumentalities.

Municipal governments typically issue amortizing debt—i.e., debt with principal maturities due on a regularly scheduled basis over a duration that varies generally between 20 and 40 years. The Commonwealth's New GO Bonds will mature over 25 years and will include both Capital Appreciation Bonds (CABs) and Current Interest Bonds (CIBs). All of the CABs and CIBs will have term bonds with mandatory sinking fund payments.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTE H - PLAN OF ADJUSTMENT FOR THE COMMONWEALTH – (CONTINUED)

This is intended to optimize cash available to pay debt service since the municipal market has a yield curve, and bonds are not priced to the average life as is the case in other markets, because specific investors may purchase bonds in differing parts of the maturity curve, including individual investors, corporations and mutual funds.

The New GO Bonds were issued with an aggregate original principal amount of approximately \$7.4 billion, consisting of approximately (i) \$6.6 billion of New GO CIBs, (ii) \$442.5 million of New GO CABs with a 5.375% interest rate, and (iii) \$288.2 million of New GO CABs with a 5.0% interest rate. They have 11 different maturity dates and will be secured by (a) a statutory first lien, (b) a pledge of the amounts on deposit in the Debt Service Fund, and (c) a pledge of the Commonwealth's full faith, credit and taxing power in accordance with Article VI, Section 2 of the Commonwealth Constitution and applicable Puerto Rico law. The New GO Bonds are dated as of, and will accrue or accrete interest from, July 1, 2021.

The Commonwealth Plan of Adjustment also provides for the issuance of CVIs, an instrument that gives a holder the right to receive payments in the event that certain triggers are met. The Commonwealth Plan of Adjustment establishes revenue-based performance benchmarks and permits the holders of CVIs to receive payments on account of the CVIs only if the benchmarks are exceeded. The CVIs issued under the Commonwealth Plan of Adjustment are based on over-performance collections of the Commonwealth's 5.5% sales and use tax (SUT), with some CVIs also being subject to over-performance collections of rum tax. The CVIs represent a conditional promise by the Commonwealth to pay CVI holders only if the SUT or rum tax baselines are exceeded in a given fiscal year. The outperformance metric will be measured as of the end of each fiscal year (i.e., June 30) beginning in fiscal year 2022 and is based on a SUT and rum tax collections baselines for fiscal years 2022 to 2043 as established in the Board-certified fiscal plan for the Commonwealth, dated May 27, 2020. As with the New GO Bonds, the Commonwealth pledged its full faith, credit and taxing power under the Puerto Rico Constitution and applicable Puerto Rico law for payment of the CVIs.

The CVIs are also divided into two categories: (i) general obligation debt CVIs (GO CVIs), which will be allocated to various holders of GO bondholder claims; and (ii) Clawback debt CVIs (the Clawback CVIs), which will be allocated to claims related to HTA, PRCCDA, PRIFA, and MBA bonds. The GO CVIs have a 22-year term. The Clawback CVIs have a 30-year term. The GO CVIs are subject to a lifetime cap of \$3.5 billion, with maximum annual payments of \$200 million plus any unused amounts from previous years subject to cumulative annual payments not exceeding \$400 million.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTE H - PLAN OF ADJUSTMENT FOR THE COMMONWEALTH – (CONTINUED)

Similarly, the Clawback CVIs are subject to a \$5.2 billion aggregate lifetime cap, allocated across the different types of bond claims, with maximum annual payments of (i) \$175 million plus any unused amounts from previous years, not to exceed cumulative annual payments of \$350 million, for fiscal years 1-22 of the 30-year term; and (ii) \$375 million plus any unused amounts from previous years, not to exceed cumulative annual payments of \$750 million, for fiscal years 23-30 of the 30-year term. The CVIs also apply an annual payment waterfall in which the first \$100 million will be paid to GO CVIs and the next \$11,111.111 will be paid to Clawback CVIs.

The Commonwealth Plan of Adjustment classifies claims into 69 classes, with each receiving the following aggregate recoveries:

- Various categories of Commonwealth bond claims (Classes 15-50): 73% recovery consisting of cash, New GO Bonds, and GO CVIs.
- Various categories of PBA bond claims (Classes 1-12, 14): 79% recovery in cash in addition to the New GO Bonds and GO CVIs that PBA bondholders receive on account of their guarantee claims against the Commonwealth.
- Various categories of Clawback creditor claims (Classes 59-63): 23% recovery consisting of the Clawback CVIs.
- ERS bond claims (Class 65): 16% recovery consisting of cash and interests in the ERS Private Equity Portfolio (as defined in and established under the Commonwealth Plan of Adjustment).
- Various categories of general unsecured claims (Classes 13, 58, and 66): 21% recovery in cash.
- Other miscellaneous claims (Classes 52-57, 64, 67-69): 26% recovery in cash.

For general unsecured claims, the Commonwealth Plan of Adjustment provides for separate levels of creditor cash recoveries at each debtor, as applicable. All general unsecured claims against the Commonwealth, ERS, and PBA are discharged, except certain Eminent Domain/Inverse Condemnation Claims (as defined in the Commonwealth Plan of Adjustment) that are not discharged until they receive payment in full, subject to an appeal of the Title III Court's ruling on such claims. If that ruling is reversed, then the Eminent Domain/Inverse Condemnation Claims will be dischargeable and impaired.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

NOTES TO THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS FISCAL YEAR ENDED JUNE 30, 2022

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTE H - PLAN OF ADJUSTMENT FOR THE COMMONWEALTH – (CONTINUED)

All other general unsecured creditors at the Commonwealth will receive up a pro-rata share of the general unsecured creditor reserve fund (the GUC Reserve), plus amounts received by the Avoidance Actions Trust (as defined in and established under the Commonwealth Plan of Adjustment) up to 40% of the value of their claim. The GUC Reserve was funded with \$200 million on the Effective Date and will be replenished with an additional aggregate total amount of \$375 million funded in incremental amounts annually through December 31, 2025.

Depending on the outcome of the appeal regarding Eminent Domain/Inverse Condemnation Claims, the GUC Reserve amount could be reduced by up to \$30 million. ERS's general unsecured creditors will receive pro rata cash distributions from a fund established for ERS general unsecured creditors, which consists of \$500,000 plus any net recoveries by the Avoidance Actions Trust allocable to ERS. PBA's general unsecured creditors will be entitled to a cash payment equal to 10% of their claim upon allowance.

Importantly, the Commonwealth Plan of Adjustment preserves all accrued pension benefits for active and retired public employees under Class 51. However, participants of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) and Teachers Retirement System of Puerto Rico (TRS) will be subject to a benefits freeze and the elimination of any cost of living adjustments previously authorized under the JRS and TRS pension plans.

During the pendency of the PROMESA cases, a variety of legal issues were raised related to creditor claims. As a result of the recoveries provided under the Commonwealth Plan of Adjustment, the COFINA plan of adjustment, and the Title VI qualified modifications for GDB, PRIFA, and PRCCDA, substantially all of those litigation proceedings have been resolved and dismissed. Certain claims, however, were not discharged under the Commonwealth Plan of Adjustment, including (i) the Eminent Domain/Inverse Condemnation Claims (Class 54); (ii) the Tax Credit Claims (Class 57); (iii) the resolution of certain claims subject to the ACR process (see Commonwealth Plan of Adjustment § 82.7); and (iv) certain Underwriter Actions related to indebtedness issued by the Commonwealth or any of its agencies or instrumentalities against any non-debtors (see Commonwealth Plan of Adjustment § 92.2(f)).

NOTE I - SUBSEQUENT EVENTS

Date of management's review

The Department's management has evaluated subsequent events through February 16, 2024, the date the statement was available to be issued.

PART II- SINGLE AUDIT SECTION

COMMONWEALTH OF PUERTO RICO - DEPARTMENT OF THE FAMILY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

Federal Agency / Pass-Through Agency / Program or Cluster Title	Federal CFDA Number	Pass-Through		Federal Disbursements
		Entity Identifying Number	Subrecipient Disbursements	
U.S. Department of Agriculture				
Pass-through PR Department of Education:				
Child and Adult Care Food Program (CACFP)	10.558		\$ -	\$ 360,843
Direct Programs:				
Nutrition Assistance for Puerto Rico	10.566		-	3,334,528,243
Pandemic EBT Food Benefits	10.542		-	275,742,560
State Pandemic Electronic Benefit Transfer (P-EBT)				
Administrative Costs Grant	10.649		-	1,446,931
			-	3,611,717,734
Food Distribution Cluster:				
Commodity Supplemental Food Program	10.565		-	80,919
Emergency Food Assistance Program (Administrative Costs)	10.568		-	3,853,421
Emergency Food Assistance Program (Food Commodities)	10.569		-	35,655
			-	3,969,994
Sub-total U.S. Department of Agriculture			-	3,616,048,571
U.S. Department of Housing and Urban Development				
Pass-through PR Housing Department:				
Continuum of Care Program	14.267		-	382,399
Direct Program:				
Emergency Solutions Grant Program	14.231	Various	24,157,971	25,334,584
Sub-total U.S. Department of Housing and Urban Development			24,157,971	25,716,983
Sub-Total Carried Forward			24,157,971	3,641,765,553
				(Continued)

See accompanying notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF PUERTO RICO - DEPARTMENT OF THE FAMILY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

Federal Agency / Pass-Through Agency / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Subrecipient Disbursements	Federal Disbursements
Sub-total brought forward			24,157,971	3,641,765,553
<u>U.S. Department of Health & Human Services</u>				
Direct Programs:				
Preschool Development Grant Birth through Five (PDG B-5)	93.434		-	388,010
Family Violence Prevention and Services Act	93.497	Various	74,201	74,201
Promoting Safe and Stable Families	93.556	Various	364,532	4,125,719
Temporary Assistance for Needy Families (TANF)	93.558		-	54,121,887
Child Support Enforcement	93.563		-	14,297,787
Low-Income Home Energy Assistance	93.568		-	15,246,739
Community-Based Family Resource and Support Grants	93.590		254,808	254,808
Grants to States for access and visitation programs	93.597		-	85,043
Chafee Education and Training Vouchers Program	93.599		-	399,767
Children's Justice Grants to States	93.643		-	127,366
Stephanie Tubbs Jones Child Welfare Services Program	93.645		-	3,546,439
Foster Care-Title IV-E	93.658		-	25,436,932
Adoption Assistance-Title IV-E	93.659		-	431,670
Social Services Block Grant	93.667		-	8,990,398
Child Abuse and Neglect State Grants	93.669		-	448,305
Family Violence Prevention and Services Act (new)	93.671	Various	1,675,561	1,716,493
John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674		-	751,747
Elder Abuse Prevention Interventions Program	93.747		-	78,840
Social Security Disability Insurance	93.802		-	324,646
Sub-total U.S. Department of Health and Human Services			2,369,102	130,846,798
Head Start Cluster				
Head Start Disaster Recovery From Hurricanes Harvey, Irma, and Maria	93.356		22,134,576	37,301,944
Head Start	93.600	Various	37,919,637	43,284,473
			60,054,213	80,586,417
Child Care & Development Fund Cluster				
Child Care Disaster Relief	93.489			49,776
Child Care and Development Block Grant	93.575	Various	46,168,002	100,644,918
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		-	9,203,460
			46,168,002	109,898,154
Total U.S. Department of Health and Human Services			108,591,317	321,331,369
<u>U.S. Social Security Administration</u>				
Social Security-Disability Insurance	96.001		-	14,381,645
Total Cash Disbursements of Federal Awards			\$ 132,749,288	\$ 3,977,478,567

See accompanying notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2022

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTE A -BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activities of the Department of the Family (the "Department") and is presented on the cash basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200. Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance").

State or local government redistributions of federal awards to the Department known as "pass-through awards", should be treated by the Department as though they were received directly from the federal government. The Uniform Guidance requires the Schedule to include the name of the passthrough entity and the identifying number assigned to the pass-through entity for the federal awards received. Numbers identified as NAV are not available.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies used by the Department in the preparation of the Schedule follows:

- a) The accompanying Schedule of Expenditures of Federal Awards is prepared from the Department's accounting records and is not intended to present the financial position or results of operations of the Department.
- b) Disbursements are recognized in the accounting period in which they are paid.
- c) The Department has not elected to use the 10 percent "de minimis" indirect cost rate allowed under the Uniform Guidance.

NOTE C – CLUSTER

The Schedule identifies some programs as clusters. A cluster of programs is comprised of federal programs with different CFDA numbers that are closely related programs and share common requirements.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2022

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTE C – CLUSTER (CONTINUED)

Cluster	Federal Program	CFDA Number
Food	Commodity Supplemental Food Program	10.565
Distribution	Emergency Food Assistance Program (Administrative Costs)	10.568
Cluster	Emergency Food Assistance Program (Food Commodities)	10.569
Head Start	Head Start Disaster Recovery From Hurricanes Harvey, Irma, and Maria	93.356
Cluster	Head Start	93.600
Child Care & Development Fund Cluster	Child Care Disaster Relief Child Care and Development Block Grant Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.489 93.575 93.596

NOTE D - MAJOR FEDERAL PROGRAMS

Major programs are identified in the Summary of Auditors' Results Section of the Schedule of Findings and Questioned Costs.

NOTE E - TRANSFERABILITY

For purposes of the Schedule, the expenditures of the funds transferred from the Temporary Assistance for Needy Families (CFDA No. 93.558) to the Social Services Block Grant (CFDA No. 93.667) in the amount of \$10,698,951 and to the Child Care Discretionary Fund (CFDA No. 93.575) in the amount of \$2,318,106, were included in the total expenditures of the receiving program.

NOTE F -RECONCILIATION WITH THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

The Department is the recipient of a federal financial assistance program that does not result in cash receipts or disbursements and is therefore not recorded in the Department's statement of cash receipts and disbursements.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2022

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

**NOTE F -RECONCILIATION WITH THE STATEMENT OF CASH RECEIPTS AND
DISBURSEMENTS - CONTINUED**

Schedule of Expenditures of Federal Awards	\$ 3,977,478.567
Less: Entitlement Amount of Food Commodities	<u>(35.655)</u>
Federal Expenditures per Statement of Cash Receipts and Disbursements	<u><u>\$ 3,977,442,912</u></u>

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
AND ON COMPLIANCE AND OTHER MATTERS**



**Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statement Performed
in Accordance with Government Auditing Standards**

Honorable Ciení Rodríguez-Troche
Secretary of the Department of the Family
San Juan, Puerto Rico

We have audited, 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, the Statement of Cash Receipts and Disbursements (the "Statement") of the Department of the Family of the Commonwealth of Puerto Rico (the "Department") for the year ended June 30, 2022, and the related notes to the Statement and have issued our report thereon dated February 16, 2024. Our report on the Statement includes an emphasis-of-matter paragraph drawing attention to Note A of the Statement, which states that the Department prepares the Statement on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the Statement, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the Statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our tests of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DLBA

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Certified Public Accountants and Business Advisors

License Number INC-1, expires on December 1, 2025

San Juan, Puerto Rico

February 16, 2024

Stamp number **E525286**

of the Puerto Rico Society
has been affixed to the final of this report.





LEADING BUSINESS SOLUTIONS

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Independent Auditors' Report on Compliance for each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

Honorable Ciení Rodríguez-Troche
Secretary of the Department of the Family
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited the Department of the Family of the Commonwealth of Puerto Rico's ("the Department") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2022. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on CFDA 10.566, Nutrition Assistance Program, and CFDA 93.558, Temporary Assistance for Needy Families

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the Department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Nutrition Assistance Program, and the Temporary Assistance for Needy Families.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2022.

Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.



We are required to be independent of the Department, and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified opinions on compliance for each major federal program. Our audit does not provide a legal determination of the Department’s compliance with the compliance requirements referred to above.

Matter(s) Giving Rise to Qualified Opinion

As described in findings 2022-01, 2022-02, and 2022-03 in the accompanying Schedule of Findings and Questioned Costs, the Department did not comply with requirements as follows:

Finding Number	Compliance Requirement (s)	Federal Program Name	CFDA Number
2022-01	Eligibility	Nutrition Assistance Program	10.566
2022-02	Eligibility	Temporary Assistance for Needy Families	93.558
2022-03	Special Testing & Provisions - Income Eligibility & Verification Systems	Temporary Assistance for Needy Families	93.558

Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Department’s federal programs.

Auditors’ Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on The Department’s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Department’s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Department's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Department's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an other instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Corrective Action Plan Segment as item 2022-004. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the Department's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-01, 2022-02, and 2022-03 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2022-04 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Department's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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Certified Public Accountants and Business Advisors

License Number INC-1, expires on December 1, 2025

San Juan, Puerto Rico

February 16, 2024

Stamp number E5272 of the Puerto Rico has been affixed



SCHEDULE OF FINDINGS AND QUESTIONED COSTS

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statement

Type of Auditors' Report Issued	Unmodified
Internal Control over Financial Reporting	
1. Material Weakness(es) identified?	No
2. Significant Deficiency(ies) identified that are not considered to be a material weakness	No
Non-Compliance material to financial statements noted?	No

Federal Awards

Internal Control over Major Programs	
1. Material Weakness(es) identified	Yes
2. Significant Deficiency(ies) identified that are not considered to be a material weakness	Yes
Type of Auditors' Report issued on compliance for major programs	Qualified
Any Audit Findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	Yes

Identification of Major Programs

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.566	Nutrition Assistance Program
10.542	Pandemic-EBT Food Benefits
	Head Start Disaster from Hurricanes
93.356	Harvey, Irma, and Maria
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.568	Low Income Home Energy Assistance
93.575	Child Care and Development Block Grant
14.231	Emergency Solutions Grant Program

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED JUNE 30, 2022

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

SECTION I - SUMMARY OF AUDITORS' RESULTS (CONTINUED)

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.600	Head Start
93.658	Foster Care-TitleIV-E
96.001	Social Security Disability Insurance
Auditee Qualified as a Low Risk-Auditee	No
Dollar threshold to distinguish between type A and type B programs	\$11,932,436

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FISCAL YEAR ENDED JUNE 30, 2022

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

Section II- FINDINGS-MAJOR FEDERAL AWARDS PROGRAM AUDIT

Finding Number: 2022-01 (*Prior Year Audit Finding 2021-02*)

Agency: U.S. Department of Agriculture

Federal Program: Nutrition Assistance Program for Puerto Rico

CFDA: 10.566

Grant Number: 211PR426S7003, 211PR476V1003, etc.

Grant Period: October 1, 2021, through September 30, 2022

Administration: Administration for Socioeconomic Development of the Family

Compliance Requirement: Eligibility Individual

Category: Material Weakness and Noncompliance

Criteria:

The Department is required to identify in its annual plan the population eligible for NAP benefits. In testing the propriety of eligibility determinations and disbursements for NAP benefits, the auditor shall apply the eligibility criteria established by the Department and identified in the annual plan (7 CFR section 285.3(b)(2)).

7 CFR Part 285 Section 3 – Plan of Operation, states (b) The plan of operation shall include the following information: (2) A description of the needy persons residing in the Commonwealth of Puerto Rico and an assessment of the food and nutrition needs of these persons. The description and assessment shall demonstrate that the Nutrition Assistance Program is directed toward the neediest persons in the Commonwealth of Puerto Rico.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

Condition:

We noted several files for participants of the referenced federal award were not complete to evaluate properly and conclude participant/beneficiary was eligible, as required by the Department procedures and federal law. As a result, we could not conclude participants reviewed were eligible to receive benefits as required by the federal award.

Perspective – We selected a sample of forty (40) participant files as part of compliance testing regarding eligibility. Auditors noted several cases in which the following documentation was not present in participants' files as follows:

- (2) Verification of valid ID
- (2) Evidence of residence
- (3) Release of information form
- (2) USA Citizenship or Verification of Alien Status form
- (2) No copy of Social Security ID or SAIC verification form of participants
- (2) Resource Verification Form (\$5k-\$15k)
- (2) Determination form
- (2) Notification Advice form

The above documentation is required as part of the eligibility controls established in the program's state plan to prove the existence of participants.

Effect:

The Department may be qualifying participants who do not meet the eligibility requirements established by federal regulations. This may ultimately result in sanctions, reduced funding, having to return monies to the federal agency, or cancellation of grants.

Cause:

The Department is not adhering to the established internal control procedures and not adequately documenting its evaluation and conclusion over the eligibility of participants.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

Recommendation:

The Department must adhere to its existing internal control procedures to properly document eligibility verification procedures performed and to ensure compliance with federal regulations and the State Plan. All documents established by the Department to evaluate and conclude participants are eligible, need to be obtained and evidenced in the participant's file.

The Department should also properly communicate eligibility verification procedures to employees and provide a clear outline as to the tasks, responsibilities, and supervision and approval tasks for each employee within the eligibility verification process.

In case, any document established for verification of eligibility is temporarily waived due to specific reasons (natural disasters, pandemic, etc.) the Department should formally communicate the provisions of the temporary waiver, obtain approval of the federal awarding agency, and formal communication should be included in the participant's file.

Questioned Costs:

Could not be determined.

Management's Response:

Refer to Grantee's Corrective Action Plan.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FISCAL YEAR ENDED JUNE 30, 2022

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

Finding Number: 2022-02 (*Prior Year Audit Finding 2021-03*)

Agency: U.S. Department of Health and Human Services

Federal Program: Temporary Assistance Needy Families

CFDA: 93.558

Grant Number: 2022G996117

Grant Period: October 1, 2021– September 30, 2022

Administration: Administration for Socioeconomic Development of the Family

Compliance Requirement: Eligibility

Category: Material Weakness and Noncompliance

Criteria:

The Department as an eligible State has submitted to the Secretary of the U.S. Treasury a State Plan that outlines the way the State intends to conduct the TANF program as requested by 42 U.S.C. Part 602 Section (a)(1)(A)(i). The State Plan shall set forth objective criteria for the delivery of benefits and the determination of eligibility and for fair and equitable treatment, including an explanation of how the State will provide opportunities for recipients who have been adversely affected to be heard in a State administrative or appeal process as required by 42 U.S.C. Part 602 Section (a) (1) (B) (iii).

The Temporary Assistance for Needy Families Program State Plan of Operation for fiscal years 2021 through 2023 of the Government of Puerto Rico (the State Plan), Chapter IV-Application Process, establishes financial and non-financial eligibility requirements for applications and redeterminations; the assistance unit that will be considered for benefits and services; supportive evidence of eligibility requirements; and other eligibility factors and criteria.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

Condition:

We noted several files for participants of the referenced federal award were not complete to evaluate properly and conclude participant/beneficiary was eligible, as required by the Department procedures and federal law. As a result, we could not conclude participants reviewed were eligible to receive benefits as required by the federal award.

Perspective - We selected a sample of fifteen (15) participant files as part of compliance testing regarding eligibility. Auditors noted several cases in which the following documentation was not present in participants' files as follows:

- (1) Participant file was not provided.
- (2) Evidence of residence verification
- (2) USA Citizenship or Verification of Alien Status form
- (2) No copy of Social Security ID or SAIC verification form of participant
- (2) Verification of valid ID

The above documentation is required as part of the eligibility controls established in the program's state plan to prove the existence of participants.

Effect:

The Department may be qualifying participants who do not meet the eligibility requirements established by federal regulations. This may ultimately result in sanctions, reduced funding, having to return monies to the federal agency, or cancellation of grants.

Cause:

The Department is not adhering to the established internal control procedures and not adequately documenting its evaluation and conclusion regarding the eligibility of participants.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

FISCAL YEAR ENDED JUNE 30, 2022

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

Recommendation:

The Department must adhere to its existing internal control procedures to properly document eligibility verification procedures performed and to ensure compliance with federal regulations and the State Plan. All documents established by the Department to evaluate and conclude participants are eligible, need to be obtained and evidenced in the participant's file.

The Department should also properly communicate eligibility verification procedures to employees and provide a clear outline as to the tasks, responsibilities, and supervision and approval tasks for each employee within the eligibility verification process.

In case, any document established for verification of eligibility is temporarily waived due to specific reasons (natural disasters, pandemic, etc.) the Department should formally communicate the provisions of the temporary waiver, obtain approval of the federal awarding agency, and formal communication should be included in the participant's file.

Questioned Costs:

Could not be determined.

Management's Response:

Refer to Grantee's Corrective Action Plan.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FISCAL YEAR ENDED JUNE 30, 2022

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

Finding Number: 2022-03 (*Prior Year Audit Finding 2021-05*)

Agency: U.S. Department of Health and Human Services

Federal Program: Temporary Assistance for Needy Families

CFDA: 93.558

Grant Number: 2022G996117

Grant Period: October 1, 2021 – September 30, 2022

Administration: Administration for Socioeconomic Development of the Family

Compliance Requirement: Special Testing & Provisions - Income Eligibility and Verification Systems

Category: Material Weakness and Noncompliance

Criteria:

Each state shall participate in the Income Eligibility and Verification System (IEVS) required by Section 1137 of the Social Security Act as amended. Under the state plan the state is required to coordinate data exchanges with other federally assisted benefit programs, request and use income and benefit information when making eligibility determinations and adhere to standardized formats and procedures in exchanging information with other programs and agencies.

The Department's Local Office Procedure Manual (the "Manual"), establishes the following procedures for the exchange of information of persons receiving Social Security Benefits (BENDEX): (a) The BENDEX list is issued monthly to the Director of each Region. (b) The Regional Director sends it to the corresponding local office. (c) The list is assigned and delivered to the technicians to crosscheck the information of the list with the participants' file. (d) The technicians will make a note on the Daily Contact Form (ADSEF-106G) including the finding, date of crosscheck, and name. In the BENDEX list the technicians must write their initials and the date on which the evaluation was made.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FISCAL YEAR ENDED JUNE 30, 2022

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

Condition:

We noted several files for participants of the referenced federal award were not complete to evaluate properly and conclude participant/beneficiary was eligible, as required by the Department procedures and federal law. As a result, we could not conclude participants reviewed were eligible to receive benefits as required by the federal award.

Perspective - We selected a sample of fifteen (15) participant files as part of compliance testing regarding eligibility. We noted several cases in which the following documentation was not present in participants' files as follows:

- (2) Child Support Cooperation Agreement for non-custodial parents. (Cat. C)
- (1) Evidence of residence. (Cat. A)
- (2) Verification of Valid ID. (Cat. A)
- (1) Medical Certification From Specialist Form (TANF-34). (Cat. D)
- (1) Participant file was not available for our review (Cat. C)

The *Child Support Cooperation Agreement* for non-custodial parents is an eligibility requirement for all Category C participants as evidence of custodial parent's cooperation with the ASUME administration in identifying the minor's father and establishing an alimony.

The *Valid Identification* is an eligibility control established in the program's state plan to prove the existence of participants.

The *Medical Certification From Specialist Form* (TANF-34) is an eligibility requirement that must be provided by applicants under category D to certify that they are incapable of compliance with work, study, or training requirements due to their mental or physical health.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

Effect:

The Department may be qualifying participants that do not meet the eligibility requirements established by federal regulations. This may ultimately result in sanctions, reduced funding, having to return monies to the federal agency, or cancellation of grants.

Cause:

The Department is not adhering to the established internal control procedures and not adequately documenting its evaluation and conclusion over the eligibility of participants.

Recommendation:

The Department must adhere to its existing internal control procedures to properly document eligibility verification procedures performed and to ensure compliance with federal regulations and the State Plan. All documents established by the Department to evaluate and conclude participants are eligible, need to be obtained and evidenced in the participant's file.

The Department should also properly communicate eligibility verification procedures to employees and provide a clear outline as to the tasks, responsibilities, and supervision and approval tasks for each employee within the eligibility verification process.

In case any document established for verification of eligibility is temporarily waived due to specific reasons (natural disasters, pandemic, etc.) the Department should formally communicate the provisions of the temporary waiver, obtain approval from the federal awarding agency, and formal communication should be included in the participant's file.

Questioned Costs:

Could not be determined.

Management's Response:

Refer to Grantee's Corrective Action Plan.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

FISCAL YEAR ENDED JUNE 30, 2022

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

Finding Number:	2022-04 (<i>Prior Year Audit Finding 2021-06</i>)
Agency:	U.S. Department of Agriculture, U.S. Department of Health and Human Services
Federal Program:	All Major Federal Programs in the SEFA
Administration:	The Office of the Secretary, Administration for Socioeconomic Development of the Family.
Compliance Requirement:	Reporting
Category:	Significant Deficiency and Noncompliance

Criteria:

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Part 200.512, Report Submission, (a) General, (1) states that the audit must be completed, and the data collection form and reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditors' report(s), or nine months after the end of the audit period.

Condition:

The Department did not comply with the required due date for the submission of the Single Audit Report Package as a result of systematic issues which have led to delays in the receipt and processing of information required as part of the Single Audit.

Effect:

The Department will be considered delinquent in the submission of the Single Audit Report Package and if it does not respond to follow-up procedures from federal agencies, may face sanctions such as:

- Draw-Down Restrictions
- Reimbursable Draw Down
- Withholding a Percentage of Federal Funds
- Suspension of Federal Funds
- Termination of Grant

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FISCAL YEAR ENDED JUNE 30, 2022**

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

Cause:

During March 2020, the government of Puerto Rico declared a general lockdown as a result of the COVID-19 Pandemic which had a significant impact in governmental agencies and businesses across Puerto Rico, delaying operations on an island-wide scale. This resulted in significant delays in the completion of the Single audits for the past fiscal periods which in turn has resulted in complications regarding filing within required deadlines.

Recommendation:

The Department must designate work teams amongst all relevant administrations which serve as liaisons with auditors and be responsible for the delivery of information and documentation to ensure compliance with due dates. The Department should maintain a clear line of communication throughout its administrations and follow up accordingly to maintain a continuous flow of information during audit procedures. In addition, the Department should request periodic follow-up meetings with auditors to address any audit issues encountered which may affect meeting established deadlines.

Questioned Costs:

None

Management's Response:

Refer to Grantee's Corrective Action Plan.

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2022

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

Reference Number: 2021-01

Federal Program: All Major Federal Programs in the SEFA

Administration: Secretariat, Administration for Socioeconomic Development of the Family, Administration for Child Care and the Integrated Development of Childhood, Administration for Children and Families, Child Support Enforcement Administration

Audit Finding: Financial Administration - Standards for Financial Management System

Questioned Costs: None

Status of Corrective Action Plan: Discussed with management. As GASB does not require a specific accounting process or software, finding was not included in 2022 report. Furthermore, the federal government allows the state to use a centralized accounting system.

Reference Number: 2021-02

CFDA: 10.566

Federal Program: Nutrition Assistance Program for Puerto Rico

Administration: Administration for Socioeconomic Development of the Family

Audit Finding: Eligibility

Questioned Costs: Could not be determined.

Status of Corrective Action Plan: Remains Uncorrected (*See reference: 2022-01*)

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - CONTINUED
FISCAL YEAR ENDED JUNE 30, 2022

EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO

Reference Number: 2021-03

CFDA: 93.558

Federal Program: Temporary Assistance for Needy Families

Administration: Administration for Socioeconomic Development of the Family

Audit Finding: Eligibility - Individual

Questioned Costs: Could not be determined.

Status of Corrective Action Plan: Remains Uncorrected (*See reference: 2022-02*)

Reference Number: 2021-04

CFDA: 93.558

Federal Program: Temporary Assistance for Needy Families

Administration: Administration for Socioeconomic Development of the Family

Compliance Requirement: Eligibility - Individual

Questioned Costs: Could not be determined.

Status of Corrective Action Plan: Corrected

COMMONWEALTH OF PUERTO RICO DEPARTMENT OF THE FAMILY
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - CONTINUED
FISCAL YEAR ENDED JUNE 30, 2022

(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

Reference Number: 2021-05

CFDA: 93.558

Federal Program: Temporary Assistance for Needy Families

Administration: Administration for Socioeconomic Development of the Family

Audit Finding: Special Testing & Provisions - Income Eligibility and Verification System

Questioned Costs: Could not be determined

Status of Corrective Action Plan: Remains Uncorrected (*See reference: 2022-03*)

Reference Number: 2021-06

Federal Program: All Major Federal Programs in the SEFA

Administration: The Office of the Secretary, Administration for Children and Families, Child Support Enforcement Administration, Administration for Socioeconomic Development of the Family, Administration for Child Care and the Integrated Development of Childhood

Audit Finding: Noncompliance - Reporting

Questioned Costs: None

Status of Corrective Action Plan: Remains Uncorrected (*See reference: 2022-04*)

Finding Number, Federal Agency Reference:	Findings:	Management Comments / Corrective Action Plan:	Anticipated Completion Date	Administration Responsible for Implementation:
<p>2022-01</p> <p>Federal Program: Nutrition Assistance Program for Puerto Rico</p> <p>Administration: Administration for Socioeconomic Development of the Family</p>	<p><i>Perspective</i> – We selected a sample of forty (40) participant files as part of compliance testing regarding eligibility, auditors noted several cases in which the following documentation was not present in participants’ files as follows:</p> <p>Finding #2022-01-NAP (PAN)</p> <p>Locality’s</p> <ul style="list-style-type: none"> • (2) Verification of valid ID – Ponce and Carolina • (2) Evidence of residence - Ponce and Carolina • (3) Release of information form- Ponce and Carolina – Caguas, Ponce, Carolina • (2) USA Citizenship or Verification of Alien Status form- Ponce, Ponce, Carolina • (2) No copy of Social Security ID or SAIC verification form of participants- Ponce and Carolina • (2) Resource Verification Form (\$5k-\$15k)- Ponce and Carolina • (2) Determination form- Ponce and Carolina • (2) Notification Advice form- Ponce and Carolina 	<p>Training was implemented to ensure the technicians submit the correct information. ADSEF management; is sending monthly memorandums regarding to changes, new updates on the system.</p>	<p>“ADSEF DIGITAL” was implemented in September 2021,</p> <p>November 2024</p>	<p>(Gerhil Medina Báez) Auxiliary Administrator for Operational Services</p> <p>(Luz D. Rosario de León) NAP Director</p> <p>Associate Director;</p> <ul style="list-style-type: none"> • Ponce • Caguas • Carolina

Finding Number, Federal Agency Reference:	Findings:	Management Comments / Corrective Action Plan:	Anticipated Completion Date	Administration Responsible for Implementation:
<p>2022-02</p> <p>Federal Program: Temporary Assistance Needy Families</p> <p>Administration: Administration for Socioeconomic Development of the Family</p>	<p>We noted several files for participants of the referenced award were not complete to evaluate properly and conclude participant/beneficiary was eligible, as required by the Department procedures and federal law. As a result, we could not conclude participants reviewed were eligible to receive benefits as required by the federal award.</p> <p><i>Perspective</i> – We selected a sample of (15) participant files as part of compliance testing regarding eligibility, auditors noted several cases in which the following documentation was not present in participants’ files as follows:</p> <p>Finding #2022-02 TANF</p> <ul style="list-style-type: none"> • (1) Participant file was not provided- Arecibo • (2) Evidence of residence verification- Carolina, San Juan • (2) USA Citizenship or Verification of Alien Status form - Carolina, San Juan • (2) No copy of Social Security ID or SAIC verification form of participant - - Carolina, San Juan • (2) Verification of valid ID- - Carolina, San Juan 	<p>Training was implemented to ensure the technicians submit the correct information. ADSEF management; is sending monthly memorandums regarding to changes, new updates on the system.</p>	<p>“ADSEF DIGITAL” was implemented in September 2021,</p> <p>November 2024</p>	<p>(Gerhil Medina Báez) Auxiliary Administrator for Operational Services</p> <p>Denise Marquez Molina TANF Director</p> <p>Associate Director:</p> <ul style="list-style-type: none"> • Arecibo • Carolina • San Juan

Finding Number, Federal Agency Reference:	Findings:	Management Comments / Corrective Action Plan:	Anticipated Completion Date	Administration Responsible for Implementation:
<p>2022-03</p> <p>Federal Program: Temporary Assistance Needy Families</p> <p>Administration: Administration for Socioeconomic Development of the Family</p>	<p>We noted several files for participants of the referenced federal award were not complete to evaluate properly and conclude participant/beneficiary was eligible, as required by the Department procedures and federal law. As a result, we could not conclude participants reviewed were eligible to receive benefits as required by the federal award.</p> <p><i>Perspective</i> - We selected a sample of 15 participant files as part of compliance testing regarding eligibility. We noted several cases in which the following documentation was not present in participants' files as follows:</p> <p>Finding #2022-03-TANF</p> <ul style="list-style-type: none"> • (2) Child Support Cooperation Agreement for non-custodial parents. (Cat. C) – Arecibo, Arecibo • (1) Evidence of residence. (Cat. A) - Carolina • (2) Verification of Valid ID. (Cat. A)-Carolina, San Juan • (1) Medical Certification from Specialist Form (TANF-34). (Cat. D) - Ponce • (1) Participant file was not available for our review (Cat. C)- Arecibo 	<p>Training was implemented to ensure the technicians submit the correct information. ADSEF management; is sending monthly memorandums regarding to changes, new updates on the system.</p>	<p>“ADSEF DIGITAL” was implemented in September 2021,</p> <p>November 2024</p>	<p>(Gerhil Medina Báez) Auxiliary Administrator for Operational Services</p> <p>Denise Marquez Molina TANF Director</p> <p>Associate Director;</p> <ul style="list-style-type: none"> • Arecibo • Carolina • San Juan

Finding Number, Federal Agency Reference:	Findings:	Management Comments / Corrective Action Plan:	Anticipated Completion Date	Administration Responsible for Implementation:
<p>2022-04</p> <p>Federal Program: All Major Federal Programs in the SEFA</p> <p>Administration: The Office of the Secretary, Administration for Socioeconomic Development of the Family.</p>	<p>The Department did not comply with the required due date for the submission of the Single Audit Report Package because of systematic issues which have led to delays in the receipt and processing of information required as part of the Single Audit.</p>	<p>There were multiple lockdowns executive order that impacted business, no school or day care were open.</p> <p>ADSEF case managers were called to work on a gradual basis on February 2021. Only essential workers were active.</p> <p>At the time of the Pandemic, the cases were evaluated in the regional offices based on the minimum criteria, then they were sent to the Central Level offices to the Medical Board for evaluation.</p> <p>Given to this situation Single Audits started late since it depends on the personnel to be present at the local and regional offices. How ever no process was delinquent or affected.</p>	<p>N/A</p>	



LEADING BUSINESS SOLUTIONS

Certified Public Accountants and Business Advisors

February 16, 2024

To users of the financial statements reported
upon by D' Leading Business Solutions

The professional staff of D' Leading Business Solutions (DLBS) are pleased to announce the successful completion of an independent peer review of our accounting and auditing practice. This review was undertaken as a condition for the membership with the American Institute of Certified Public Accountants (AICPA), the National Organization for Certified Public Accountants (CPA) in public practice, industry, government, and education.

In 1988, the members of the AICPA overwhelmingly approved a proposal to require members in public practice to participate in a practice-monitoring program. With the adoption of this proposal, the AICPA implemented a Peer Review Program of unprecedented scope in the CPA profession or any other. Furthermore, in August 2000, the Puerto Rico Society of Certified Public Accountants (PRSCPA) adopted a voluntary participation peer review program, which follows the lead established by the AICPA. Our participation in Peer Review demonstrates our Firm's desire to measure up to the profession's highest standards of professionalism and our commitment to maintaining and improving the quality of our practice.

The reviewer first determined that we have an adequate quality control system, and then assessed that professional standards were followed in a representative sample of our accounting and auditing engagements. After a thorough study of our policies and procedures, the reviewer concluded that DLBS complies with the quality control standards established by the AICPA and the PRSCPA. As a result, the reviewer issued a report on September 13, 2023, with a rating of Pass (the highest possible rating), which confirms our compliance with the highest standards of quality control procedures prescribed by our profession. We are very proud to show our results to the business community.

Bankers, bonding agents, investors, suppliers, legal advisors, and others use financial statements that DLBS audits, reviews, or compiles. We believe all users of these financial statements, our clients, and our professional staff deserve independent quality assurance that our Firm provides quality services. We are proud of our peer review results and would be happy to answer any questions you might have.

Sincerely,

Pablo Morales-Padillo
President



ZAYAS, MORAZZANI & Co.
CERTIFIED PUBLIC ACCOUNTANTS

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Report on the Firm's System of Quality Control

September 13, 2023

To the Shareholders of D'Leading Business Solutions, Inc.
and the Peer Review Committee of the
Puerto Rico Society of Certified Public Accountants.

We have reviewed the system of quality control for the accounting and auditing practice of D'Leading Business Solutions, Inc. (the firm) in effect for the year ended July 31, 2022.

Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a system review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported on in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing and complying with a system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with the requirements of applicable professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of and compliance with the firm's system of quality control based on our review.

Required Selections and Considerations

Engagements selected for review included an audit of an employee benefit plan.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of D'Leading Business Solutions, Inc. in effect for the year ended July 31, 2022, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. D'Leading Business Solutions, Inc. has received a peer review rating of *pass*.

Zayas, Morazzani & Co.